MALUTI-A-PHOFUNG LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2013

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General Information

Legal form of entity	Municipality
Municipal demarcation code	FS194
Nature of business and principal activities	Local governance activities
Mayoral committee	Lebesa MJ Mboso SL Mohlabi ML Mokoena M Mokotso G Mokubung ML Mosia MM Mositi M Nhlapo MA Thebe TR
Executive Mayor	Moleleki SSM
Chief Whip	Tshabalala V
Speaker	Nthedi AM
Councillors	Crockett M Hlatswayo TF Khambule M Khoapa NA Khoari MI Kleynhans LM Komako M Lebesa MB Lebesana PJ Letawana T Letooane S Mahlambi TJ Mahlatsi A Mahumuza LP Majake M Mashiane D Matjale M Mavuso MT Mazibuko MR Mbongo MJ Mkhwanazi TI Mofana MM Mofokeng BD Mofokeng K Mohlekwa TR Mohoaladi ME

General Information

	Mojakisane NS
	Mokoena L
	Mokoena DJ
	Molaba TE
	Moloi L
	Mopeli MS
	Mopeli N
	Moseme LA
	Mosikili M
	Mosikili ST
	Motaung S
	Motaung M
	Motloung M
	Motaung PM
	Mosikidi TJ
	Mpakathe M
	Mphonyo MA
	Ntamane VM
	Ramakarane TA
	Ramochela A
	Rantsane J
	Sehlako KM
	Seobi MJ
	Sephula S
	Shabalala M
	Taaso BM
	Thakhuli N
	Tolofi M
	Tsotetsi MJ
Grading of local authority	Grade 4
Capacity of local authority	Medium
Accounting Officer	Ntombela LMD
Chief Finance Officer (CFO)	Molefe N (Acting)
Registered office	Cnr Moremoholo & Motloung Streets Setsing Business Center Phuthaditjhaba 9866
Postal address	Private Bag X805 Witsieshoek 9866
Bankers	First National Bank Ltd
Auditors	Auditor General - Free State
Attorneys	Balden and Vogel Partners Breytenbach Mavuso Ing

General Information

Hill Mchardy & Herbst Ing.
Peyper Attorneys
Rossouws Attorneys
Sunil Narian Incorportated
Uys Mathebula Attorneys

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The reports and statements set out below comprise the annual financial statements presented to the council:

Abbreviations

GRAP	Generally Recognised Accounting Practice
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 7.

The annual financial statements set out on pages 7 to 98, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013 and were signed on its behalf by:

30/08/2013

Ntombela LMD
Municipal Manager

30/08/2013
Date

Phuthaditjhaba
Place

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2013.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 2 number of meetings were held.

Name of member	Number of meetings attended
Ntsala GS (Chairperson)	2
Mohlahlo EM	0
Mothekge MP	2
Tshake MP (Deceased)	1

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the PFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

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Chairperson of the Audit Committee

Date: ______________________

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2013.

1. Review of activities

Main business and operations

The municipality is engaged in local governance activities and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 128,034,939 (2012: deficit R 284,817,202).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer identified the following subsequent events:
After year end a lititgation was brought against the municipality by Rural Maintenance in terms of a contract cancelled by council. This is still an ongoing issue.

4. Accounting Officer's interest in contracts

None.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Ntombela LMD

7. Auditors

Auditor General - Free State will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012 Restated
Assets			
Current Assets			
Consumer receivables	3	119,256,947	85,206,593
Receivables from exchange transactions	4	26,836,148	18,716,855
Short term of long term receivable	5	12,866,400	9,706,207
Cash and cash equivalents	6	3,332,493	12,229,810
Inventories	7	2,672,590	2,345,605
Other financial assets	8	2,670,662	1,777,756
Receivables from non-exchange transactions	9	20,802,718	92,862,772
VAT receivable	10	-	6,641,675
		188,437,958	**229,487,273**
Non-Current Assets			
Long term receivable	5	5,922,083	10,478,684
Other financial assets	8	277,989	211,855
Property, plant and equipment	11	4,358,092,402	4,375,899,470
Investment property	12	25,102,766	26,402,452
Intangible assets	13	106,246	211,604
Investment in controlled entity	14	300	300
		4,389,501,786	**4,413,204,365**
Total Assets		**4,577,939,744**	**4,642,691,638**
Liabilities			
Current Liabilities			
Bank overdraft	6	37,970,227	-
Payables from exchange transactions	15	214,581,376	200,720,110
Consumer deposits	16	24,614,851	24,654,943
VAT payable	17	12,992,771	-
Unspent conditional grants and receipts	18	8,853,932	10,280,425
Finance lease obligation	19	3,389,208	3,527,472
Other financial liabilities	20	2,485,265	6,544,268
Taxes and transfers payable (non-exchange)	21	36,447	3,891,681
		304,924,077	**249,618,899**
Non-Current Liabilities			
Finance lease obligation	19	3,657,729	7,674,531
Other financial liabilities	20	17,016,609	14,146,848
Provisions for closure	22	37,268,911	35,028,011
Long service liability	23	16,797,000	11,750,000
Retirement benefit obligation	24	11,181,000	9,344,000
		85,921,249	**77,943,390**
Total Liabilities		**390,845,326**	**327,562,289**
Net Assets		**4,187,094,418**	**4,315,129,349**

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012 Restated
Revenue			
Service charges	28	318,976,926	331,038,724
Property rates	27	147,150,223	172,500,680
Government grants & subsidies	29	634,002,409	613,149,494
Rental of facilities and equipment	40	1,000,633	922,252
Other income	30	11,859,028	102,758,203
Interest received - consumers	26	22,438,128	30,614,449
Interest received - investment	36	1,902,787	2,017,989
Fines	26	938,254	5,047,124
Total revenue		**1,138,268,388**	**1,258,048,915**
Expenditure			
Employee related cost	32	(198,611,117)	(193,973,458)
Remuneration of councillors	33	(19,389,954)	(17,501,532)
Community project expenditure	34	(43,391,679)	(104,654,377)
Depreciation and amortisation	38	(295,600,062)	(458,714,888)
Finance costs	39	(8,919,020)	(7,462,798)
Debt impairment	35	(56,209,276)	(96,509,285)
Repairs and maintenance	45	(79,800,240)	(42,907,608)
Bulk purchases	44	(293,228,119)	(338,513,112)
Contracted services	42	(84,030,643)	(42,261,439)
Grants and subsidies paid	43	(77,723,000)	(74,387,000)
General expenses	31	(109,486,621)	(790,721,274)
Total expenditure		**(1,266,389,731)**	**(2,167,606,772)**
Operating deficit		**(128,121,343)**	**(909,557,857)**
Fair value adjustments	37	86,404	624,740,655
Deficit for the year		**(128,034,939)**	**(284,817,202)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2011	**4,599,946,551**	**4,599,946,551**
Surplus for the year	(284,817,202)	(284,817,202)
Total changes	(284,817,202)	(284,817,202)
Opening balance as previously reported	3,843,464,576	3,843,464,576
Adjustments		
Correction of errors (note 50)	471,664,781	471,664,781
Balance at 01 July 2012 as restated	**4,315,129,357**	**4,315,129,357**
Surplus for the year	(128,034,939)	(128,034,939)
Total changes	(128,034,939)	(128,034,939)
Balance at 30 June 2013	**4,187,094,418**	**4,187,094,418**

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012 Restated
Cash flows from operating activities			
Receipts			
Sale of goods and services		470,320,293	429,408,148
Grants		632,575,916	606,082,636
Interest income		1,902,787	2,017,989
Other receipts		1,571,578	109,262,254
		1,106,370,574	1,146,771,027
Payments			
Employee costs		(218,001,070)	(211,474,990)
Suppliers		(566,125,900)	(585,317,620)
Finance costs		(8,919,020)	(7,462,798)
Other payments		(84,030,642)	(42,261,435)
		(877,076,632)	(846,516,843)
Net cash flows from operating activities	46	**229,293,942**	**300,254,184**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(276,387,953)	(987,374,377)
Proceeds from sale of property, plant and equipment	11	-	995,299
Purchase of intangible assets	13	-	(28,822)
Purchase of financial assets		(872,635)	-
Proceeds from sale of financial assets		(1)	665,898,197
Proceeds from sale of long term receivable		1,396,408	2,446,103
Net cash flows from investing activities		**(275,864,181)**	**(318,063,600)**
Cash flows from financing activities			
Proceeds from other financial liabilities		-	8,595,140
Repayment of other financial liabilities		(1,189,242)	-
Movement in long service liability		5,047,000	717,000
Finance lease payments		(4,155,066)	-
Finance lease receipts		-	11,202,000
Net cash flows from financing activities		**(297,308)**	**20,514,140**
Net increase / (decrease) in cash and cash equivalents		**(46,867,547)**	**2,704,724**
Cash and cash equivalents at the beginning of the year		12,229,810	9,525,089
Cash and cash equivalents at the end of the year	6	**(34,637,737)**	**12,229,813**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	452,731,049	(48,299,800)	**404,431,249**	318,976,926	**(85,454,323)**	Note 58
Rental of facilities and equipment	1,200,000	350,000	**1,550,000**	1,000,633	**(549,367)**	
Interest received (trading)	17,127,000	-	**17,127,000**	22,438,128	**5,311,128**	Note 58
Revaluation reserve	-	300,000,000	**300,000,000**	-	**(300,000,000)**	Note 58
Other income - (rollup)	4,545,977	138,771,614	**143,317,591**	11,859,028	**(131,458,563)**	
Interest received - investment	2,423,545	-	**2,423,545**	1,902,787	**(520,758)**	
Total revenue from exchange transactions	**478,027,571**	**390,821,814**	**868,849,385**	**356,177,502**	**(512,671,883)**	
Revenue from non-exchange transactions						
Taxation revenue						
Direct taxes (Income tax, estate duty)	3,051,000	-	**3,051,000**	938,254	**(2,112,746)**	Note 58
Property rates	204,308,906	-	**204,308,906**	147,150,223	**(57,158,683)**	Note 58
Government grants & subsidies	621,560,759	24,044,000	**645,604,759**	634,002,409	**(11,602,350)**	Note 58
Total revenue from non-exchange transactions	**828,920,665**	**24,044,000**	**852,964,665**	**782,090,886**	**(70,873,779)**	
Total revenue	**1,306,948,236**	**414,865,814**	**1,721,814,050**	**1,138,268,388**	**(583,545,662)**	
Expenditure						
Personnel	(216,040,642)	(11,324,030)	**(227,364,672)**	(198,611,117)	**28,753,555**	
Remuneration of councillors	(24,148,709)	(477,000)	**(24,625,709)**	(19,389,954)	**5,235,755**	Note 58
Administration	(419,920,121)	(39,765,846)	**(459,685,967)**	(43,391,679)	**416,294,288**	Note 58
Depreciation and amortisation	(49,000,000)	(251,000,000)	**(300,000,000)**	(295,600,062)	**4,399,938**	Note 58
Finance costs	(16,500,000)	(100,000)	**(16,600,000)**	(8,919,020)	**7,680,980**	Note 58
Debt impairment	(66,594,084)	-	**(66,594,084)**	(56,209,276)	**10,384,808**	Note 58
Repairs and maintenance	(78,942,981)	(31,912,010)	**(110,854,991)**	(79,800,240)	**31,054,751**	Note 58
Bulk purchases	(331,228,000)	-	**(331,228,000)**	(293,228,119)	**37,999,881**	Note 58
Contracted services	(29,300,763)	(66,012,530)	**(95,313,293)**	(84,030,643)	**11,282,650**	
Grants and subsidies paid	(77,723,300)	-	**(77,723,300)**	(77,723,000)	**300**	
General expenses	(117,431,920)	(71,116,928)	**(188,548,848)**	(109,486,621)	**79,062,227**	
Total expenditure	**(1,426,830,520)**	**(471,708,344)**	**(1,898,538,864)**	**(1,266,389,731)**	**632,149,133**	
Operating deficit	**(119,882,284)**	**(56,842,530)**	**(176,724,814)**	**(128,121,343)**	**48,603,471**	
Fair value adjustments	-	-	-	86,404	**86,404**	
Surplus	**(119,882,284)**	**(56,842,530)**	**(176,724,814)**	**(128,034,939)**	**48,689,875**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(119,882,284)**	**(56,842,530)**	**(176,724,814)**	**(128,034,939)**	**48,689,875**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Rate payers and other	652,964,000	-	**652,964,000**	1,085,284,858	**432,320,858**	
Government - operating	348,037,000	-	**348,037,000**	-	**(348,037,000)**	
Government - capital	273,524,000	24,044,000	**297,568,000**	-	**(297,568,000)**	
Interest income	2,424,000	9,065,000	**11,489,000**	1,902,787	**(9,586,213)**	
	1,276,949,000	**33,109,000**	**1,310,058,000**	**1,087,187,645**	**(222,870,355)**	
Payments						
Suppliers and employee costs	(774,887,000)	-	**(774,887,000)**	(1,080,482,647)	**(305,595,647)**	
Finance costs	(16,000,000)	-	**(16,000,000)**	(5,016,979)	**10,983,021**	
Transfers and grants	(177,723,000)	-	**(177,723,000)**	(75,286,135)	**102,436,865**	
	(968,610,000)	**-**	**(968,610,000)**	**(1,160,785,761)**	**(192,175,761)**	
Net cash flows from operating activities	**308,339,000**	**33,109,000**	**341,448,000**	**(73,598,116)**	**(415,046,116)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(244,524,000)	(173,544,000)	**(418,068,000)**	-	**418,068,000**	
Proceeds from sale of property, plant and equipment	2,000,000	(2,000,000)	**-**	-	**-**	
Decrease/ (Increase) in non-current debtors	(130,976,000)	-	**(130,976,000)**	(872,635)	**130,103,365**	
Decrease / (Increase) in other non-current receivables	2,568,000	-	**2,568,000**	-	**(2,568,000)**	
Decrease / (Increase) in non-current Investments	5,689,000	-	**5,689,000**	20,184,891	**14,495,891**	
Net cash flows from investing activities	**(365,243,000)**	**(175,544,000)**	**(540,787,000)**	**19,312,256**	**560,099,256**	
Cash flows from financing activities						
Repayment of other financial liabilities	(22,000,000)	-	**(22,000,000)**	(1,189,242)	**20,810,758**	
Movement in long service liability	98,000,000	-	**98,000,000**	-	**(98,000,000)**	
Net cash flows from financing activities	**76,000,000**	**-**	**76,000,000**	**(1,189,242)**	**(77,189,242)**	
Net increase / (decrease) in cash and cash equivalents	19,096,000	(142,435,000)	**(123,339,000)**	(55,475,102)	**67,863,898**	
Cash and cash equivalents at the beginning of the year	5,050,000	4,000,000	**9,050,000**	12,465,150	**3,415,150**	
Cash and cash equivalents at the end of the year	**24,146,000**	**(138,435,000)**	**(114,289,000)**	**(43,009,952)**	**71,279,048**	

Maluti-a-Phofung Local Municipality

(Registration number FS194)
Annual Financial Statements for the year ended 30 June 2013

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2013											
Financial Performance											
Property rates	204,308,906	-	204,308,906	-		204,308,906	147,150,223		(57,158,683)	72 %	72 %
Service charges	452,731,049	(48,299,800)	404,431,249	-		404,431,249	318,976,926		(85,454,323)	79 %	70 %
Investment revenue	2,423,545	-	2,423,545	-		2,423,545	1,902,787		(520,758)	79 %	79 %
Transfers recognised - operational	348,037,000	-	348,037,000	-		348,037,000	348,012,897		(24,103)	100 %	100 %
Other own revenue	931,386,075	342,522,014	1,273,908,089	-		1,273,908,089	36,322,447		(1,237,585,642)	3 %	4 %
Total revenue (excluding capital transfers and contributions)	**1,938,886,575**	**294,222,214**	**2,233,108,789**	**-**		**2,233,108,789**	**852,365,280**		**(1,380,743,509)**	**38 %**	**44 %**
Employee costs	(216,040,642)	(11,324,030)	(227,364,672)	-	-	(227,364,672)	(198,611,117)	-	28,753,555	87 %	92 %
Remuneration of councillors	(24,148,709)	(477,000)	(24,625,709)	-	-	(24,625,709)	(19,389,954)	-	5,235,755	79 %	80 %
Debt impairment	(66,594,084)	-	(66,594,084)			(66,594,084)	(56,209,276)	-	10,384,808	84 %	84 %
Depreciation and asset impairment	(49,000,000)	(251,000,000)	(300,000,000)			(300,000,000)	(295,600,062)	-	4,399,938	99 %	603 %
Finance charges	(16,500,000)	(100,000)	(16,600,000)	-	-	(16,600,000)	(8,919,020)	-	7,680,980	54 %	54 %
Materials and bulk purchases	(331,228,000)	-	(331,228,000)	-	-	(331,228,000)	(293,228,119)	-	37,999,881	89 %	89 %
Transfers and grants	(77,723,300)	-	(77,723,300)	-	-	(77,723,300)	(77,723,000)	-	300	100 %	100 %
Other expenditure	(645,595,785)	(151,964,784)	(797,560,569)	-	-	(797,560,569)	(316,709,183)	-	480,851,386	40 %	49 %
Total expenditure	**(1,426,830,520)**	**(414,865,814)**	**(1,841,696,334)**	**-**	**-**	**(1,841,696,334)**	**(1,266,389,731)**	**-**	**575,306,603**	**69 %**	**89 %**
Surplus / (Deficit)	**512,056,055**	**(120,643,600)**	**391,412,455**	**-**		**391,412,455**	**(414,024,451)**		**(805,436,906)**	**(106)%**	**(81)%**

Maluti-a-Phofung Local Municipality

(Registration number FS194)
Annual Financial Statements for the year ended 30 June 2013

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	273,523,759	24,044,000	297,567,759	-		297,567,759	285,989,512		(11,578,247)	96 %	105 %
Surplus / (Deficit) after capital transfers and contributions	**785,579,814**	**(96,599,600)**	**688,980,214**	**-**		**688,980,214**	**(128,034,939)**		**(817,015,153)**	**(19)%**	**(16)%**
Surplus / (Deficit) for the year	**785,579,814**	**(96,599,600)**	**688,980,214**	**-**		**688,980,214**	**(128,034,939)**		**(817,015,153)**	**(19)%**	**(16)%**
Capital expenditure and funds sources											
Total capital expenditure	394,024,000	24,044,000	418,068,000	-		418,068,000	276,387,953		(141,680,047)	66 %	70 %
Sources of capital funds											
National goverment	273,524,000	24,044,000	297,568,000	-		297,568,000	-		(297,568,000)	- %	- %
Borrowing	98,000,000	-	98,000,000	-		98,000,000	-		(98,000,000)	- %	- %
Internally generated funds	22,500,000	-	22,500,000	-		22,500,000	-		(22,500,000)	- %	- %
Total sources of capital funds	**394,024,000**	**24,044,000**	**418,068,000**	**-**		**418,068,000**	**-**		**(418,068,000)**	**- %**	**- %**

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	308,339,000	33,109,000	341,448,000	-		341,448,000	229,293,942		(112,154,058)	67 %	74 %
Net cash from (used) investing	(365,243,000)	(175,544,000)	(540,787,000)	-		(540,787,000)	(275,864,181)		264,922,819	51 %	76 %
Net cash from (used) financing	76,000,000	-	76,000,000	-		76,000,000	(297,308)		(76,297,308)	- %	- %
Net increase / (decrease) in cash and cash equivalents	**19,096,000**	**(142,435,000)**	**(123,339,000)**	**-**		**(123,339,000)**	**(46,867,547)**		**76,471,453**	**38 %**	**(245)%**
Cash and cash equivalents at the beginning of the year	5,050,000	4,000,000	9,050,000	-		9,050,000	12,229,810		3,179,810	135 %	242 %
Cash and cash equivalents at year end	**24,146,000**	**(138,435,000)**	**(114,289,000)**	**-**		**(114,289,000)**	**(34,637,737)**		**(79,651,263)**	**30 %**	**(143)%**

Appropriation Statement

Figures in Rand	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
2012				
Financial Performance				
Property rates				172,500,680
Service charges				331,038,724
Investment revenue				2,017,989
Transfers recognised - operational				318,769,659
Other own revenue				764,082,683
Total revenue (excluding capital transfers and contributions)				**1,588,409,735**
Employee costs	-	-	-	(193,973,458)
Remuneration of councillors	-	-	-	(17,501,532)
Debt impairment	-	-	-	(96,509,285)
Depreciation and asset impairment	-	-	-	(458,714,888)
Finance charges	-	-	-	(7,462,798)
Materials and bulk purchases	-	-	-	(338,513,112)
Transfers and grants	-	-	-	(74,387,000)
Other expenditure	-	-	-	(980,544,699)
Total expenditure	**-**	**-**	**-**	**(2,167,606,772)**
Transfers recognised - capital				294,379,835
Surplus / (Deficit) after capital transfers and contributions				**(284,817,202)**
Surplus / (Deficit) for the year				**(284,817,202)**
Capital expenditure and funds sources				
Total capital expenditure				1,239,959,797

Appropriation Statement

Figures in Rand	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Cash flows				
Net cash from (used) operating				300,254,184
Net cash from (used) investing				(318,063,600)
Net cash from (used) financing				20,514,140
Net increase / (decrease) in cash and cash equivalents				**2,704,724**
Cash and cash equivalents at the beginning of the year				9,525,089
Cash and cash equivalents at year end				**12,229,813**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable (service) amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including together with economic factors such as interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 22 Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation / amortisation charges for property, plant and equipment and other assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 24.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for debt impariment

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Cost model

Subsequent to initial measurement investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	5 - 30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

1.2 Investment property (continued)

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the investment property. Such difference is recognised in surplus or deficit when the investment property is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost on acquisition date.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Accounting Policies

1.3 Property, plant and equipment (continued)

Item	Average useful life
Land	Indefinite
Buildings	5-30 years
•	1-20 years
Furniture and fixtures	
• Furniture and fittings	3-15 years
• Kitchen equipment	5-10 year
Motor vehicles	
• Fire engines	5-10 years
• Heavy duty vehicles	5-7 years
• Other	4-20 years
Office equipment	
• Airconditioners	3-5 years
• Office machines	5-7 years
IT equipment	3-10 years
Computer software	2-5 years
Infrastructure	
• Electricity	3-80 years
• Sewerage	10-60 years
• Water	5-100 years
• Bridges	10-80 years
• Storm water	25-100 years
• Roads	3-60 years
• Airport	10-30 years
• Solid waste disposal	5-55 years
• Rail ways	15-30 years
• Gas supplies systems	10-50 years
• Cemetery	25-30 years
Community	25-30 years
Landfill sites	10-55 years
Audio visual equipment	5-10 years
Emergency equipment	5-10 years

The residual value, the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Such difference is recognised in surplus or deficit when the item of property, plant and equipment is derecognised.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Accounting Policies

1.4 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:
(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.5 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, excluding rights granted by statue, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired.

For all other intangible assets the amortisation method for intangbile assets are reviewed at each reporting date.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimates.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Servitudes created through the exercise of legislation are not recognised as intangible assets and any cost incurred to register these servitudes are expensed. Servitudes, however, that a created through an agreement (contract) are recongnised as intangible assets.

1.5 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since the most closely reflects the expected pattern of consumption fo the future economic benefits embodied in the asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	2-5 years

Intangible assets are derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the intangible asset. Such difference is recognised in surplus or deficit when the intangible asset is derecognised.

1.6 Investment in controlled entity

Investment in controlled entity are carried at cost less any accumulated impairment.

The cost of an investment in controlled entity is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the controlled entity.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other receivables	
- Receivables from exchange transactions	Financial asset measured at amortised cost
- Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other receivables	Financial asset measured at amortised cost
Investments	Financial assets measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other payables	
- Payables from exchange transactions	Financial liability measured at amortised cost
- Consumer deposits	Financial liability measured at amortised cost
Other payables	Financial liability measured at amortised cost
Bank overdrafts and borrowings	Financial liability measured at amortised cost

1.7 Financial instruments (continued)

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability, other than those subsequently measured at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures all other financial assets and financial liabilities initially at its fair value.

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability in the case of a financial asset.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

1.7 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Accounting Policies

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for a nominal cost, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Accounting Policies

1.9 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of it carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.11 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

The recoverable amount of cash generating assets or cash generating unit is the higher of its value in use less cost to sell and its value in use.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.12 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

Accounting Policies

1.13 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and

1.13 Employee benefits (continued)

- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Accounting Policies

1.13 Employee benefits (continued)

Long service leave benefit

The municipality recongised long service leave benefits as a liability and an expense when the municipality is demonstrably commited to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

	Additional accumulated leave	Monetary award (of annual salary)
Less than 5 years' service	5 days	2%
5 - 10 years' service	10 days	3%
10 - 15 years' service	15 days	4%
15 - 20 years' service	15 days	5%
20 - 25 years' service	15 days	6%
25 - 30 years' service	15 days	6%
30 - 35 years' service	15 days	6%
35 - 40 years' service	15 days	6%
40 - 45 years' service	15 days	6%

On termination of service, an employee shall be paid his leave entitlement, including the leave mentioned above, and calculated in terms of the relevant provision fo the Basic Conditions of Employement Act 75 of 1997.

The initial of appointement of an employee shall be maintained for the purpose of determining the actual service period of the employee and the calculaton of the long service bonus.

The long serive leave must be taken within one year of receiving such leave or may be wholly or partially encashed.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating expenditure.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probably that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 48.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards is recognised based on consumption, except where a reliable estimate cannot be made after every reasonable effort to gather the appropriate information had been made. In these instances revenue is recognised at the point-of-sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest, royalties and dividends

Revenue arising from the use by others of municipaly assets yielding interest, royalties and dividends or similar distributions is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

1.16 Revenue from non-exchange transactions (continued)

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another party without directly giving approximately equal value in exchange, or gives value to another party without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the municipality.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Services in-kind

Services in-kind are not recognised.

1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

If the carrying amount of the qualifying asset exceeds its recoverable amount or recoverable service amount, an impairment loss is recognised for the excess amount.

Borrowing costs that are not capitalised are recognised as an expense in surplus or deficiet.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998), or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off amounts and intends either to settle on a net basis or to realise the asset and settle the liability simuntaneously.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.23 Budget information

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/12 to 30/06/13.

Refer to the statement of comparision of budget on actual amounts.

Comparative information is not required.

1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management is those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

1.25 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

Accounting Policies

1.26 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

1.27 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non adjusting events after the reporting date have been disclosed in the notes to the annual financial statements.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when the municipality receives value from another party without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, the municipality shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where the municipality prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 103: Heritage Assets

GRAP 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

A heritage asset should be recognised as an asset only if:
- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgement in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

GRAP 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, the municipality has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

GRAP 103 states that a heritage asset should not be depreciated, but the municipality should assess at each reporting date whether there is an indication that it may be impaired.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The municipality should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The municipality treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 21: Impairment of Non-cash-generating Assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 26: Impairment of Cash-generating Assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one entity and a financial liability or residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, the municipality considers the substance of the contract and not just the legal form.

Financial assets and financial liabilities are initially recognised at fair value. Where the municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Concessionary loans are loans either received by or granted to another entity on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. The municipality measures a financial instrument at fair value if it is:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, the municipality can however designate such an instrument to be measured at fair value.

The municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once the municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

The municipality derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, the municipality has transferred control of the asset to another entity.

The municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where the municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

The municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for the municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that the municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is set out in note 8 Changes in accounting policy.

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

GRAP 1 (as revised 2012): Presentation of Financial Statements

Minor amendments were made to the statement of financial performance as well as the statement of changes in net assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Amendments were made to changes in accounting policies. A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that a Standard of GRAP would otherwise require or permit to be measured at fair value are no longer considered to be a change in an accounting policy in terms of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 7 (as revised 2012): Investments in Associates

Amendments were made to definitions. A requirement to include transaction costs on initial recognition of an investment in an associate under the equity method, has been included in the Standard of GRAP Investments in Associates

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Amendments were made to the scope and definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 12 (as revised 2012): Inventories

Amendments were made to measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 13 (as revised 2012): Leases

Amendments were made to disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The impact of the amendment is not material.

GRAP 16 (as revised 2012): Investment Property

Amendments were made to definitions, measurement at recognition, disposals and disclosure. Changes were made to the Standard of GRAP on Investment Property (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the assessment of significant use of an investment property has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Amendments were made to definitions, measurement at recognition, disposals and disclosure. Changes were made to the Standard of GRAP on Property, Plant and Equipment (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the requirement to disclose property, plant and equipment that were temporarily idle, has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)

This Standard of GRAP replaces the previous Standard of GRAP on Agriculture (GRAP 101) due to the International Public Sector Accounting Standards Board (IPSASB) that has issued an IPSAS on Agriculture (IPSAS 27).

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has early adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

This Standard of GRAP replaces the previous Standard of GRAP on Intangible Assets (GRAP 102) due to the IPSASB that has issued an IPSAS on Intangible Assets (IPSAS 31).

Changes made comprise three areas that can be summarised as follows:

- consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31;
- the deletion of guidance and examples from interpretations issued by the International Accounting Standards Board (IASB) previously included in GRAP 102; and
- changes to ensure consistency between the Standards of GRAP, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the standard is for years beginning on or after 01 April 2013.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality has early adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

GRAP 25: Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when the municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

The standard states the recognition, measurement and disclosure requirements of:

- short-term employee benefits;
  - all short-term employee benefits;
  - short-term compensated absences;
  - bonus, incentive and performance related payments;
- post-employment benefits: Defined contribution plans;
- other long-term employee benefits; and
- termination benefits.

The major difference between this this standard (GRAP 25) and IAS 19 is with regards to the treatment of actuarial gains and losses and past service costs. This standard requires the municipality to recognise all actuarial gains and losses and past service costs immediately in the statement of financial performance once occurred.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 105: Transfers of Functions Between Entities Under Common Control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and/or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a transfer of functions between entities under common control.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

The impact of the standard is currently being assessed.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and/or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between amount of consideration paid or received, if any, and the fair value of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Specific disclosures are required when there is a transfer of functions between entities not under common control.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomed effective.

The impact of the standard is currently being assessed.

GRAP 20: Related Parties

The objective of this standard is to ensure that the reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The municipality (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard states that a related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence.

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management.

Only transactions with related parties where the transactions are not concluded within normal normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

2.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of the municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by the municipality within a particular region.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 1 (as revised 2012): Applying the Probability Test on Initial Recognition of Revenue

This interpretation of the Standards of GRAP now addresses the manner in which the municipality applies the probability test on initial recognition of both:

(a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions; and

(b) non-exchange revenue in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

This interpretation supersedes the interpretation of the Standards of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue issued in 2009.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

The municipality expects to adopt the interpretation for the first time in the 2014 annual financial statements.

The impact of this interpretation is currently being assessed.

3. Consumer receivables

Gross balances		
Electricity	67,567,016	67,889,261
Water	159,526,306	128,284,068
Sewerage	68,787,857	56,250,694
Refuse	78,916,501	68,129,749
Sundry receivables	82,736,177	80,463,007
	457,533,857	**401,016,779**
Less: Allowance for impairment		
Electricity	(38,113,269)	(39,044,780)
Water	(139,411,572)	(121,263,898)
Sewerage	(55,713,712)	(51,763,719)
Refuse	(69,197,791)	(66,038,409)
Sundry receivables	(35,840,566)	(37,699,380)
	(338,276,910)	**(315,810,186)**
Net balance		
Electricity	29,453,747	28,844,481
Water	20,114,734	7,020,170
Sewerage	13,074,145	4,486,975
Refuse	9,718,710	2,091,340
Sundry receivables	46,895,611	42,763,627
	119,256,947	**85,206,593**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
3. Consumer receivables (continued)		
Electricity		
Current (0 -30 days)	18,010,416	21,954,170
31 - 60 days	2,665,764	2,265,329
61 - 90 days	270,591	2,419,468
> 91 days	8,506,976	2,205,514
	29,453,747	**28,844,481**
Water		
Current (0 -30 days)	2,116,071	4,099,117
31 - 60 days	1,127,320	1,203,592
61 - 90 days	327,848	737,543
> 91 days	16,543,495	979,918
	20,114,734	**7,020,170**
Sewerage		
Current (0 -30 days)	760,973	2,692,454
31 - 60 days	361,390	717,578
61 - 90 days	227,264	604,656
> 91 days	11,724,518	472,287
	13,074,145	**4,486,975**
Refuse		
Current (0 -30 days)	474,475	1,216,957
31 - 60 days	262,785	164,255
61 - 90 days	203,327	158,665
> 91 days	8,778,123	551,463
	9,718,710	**2,091,340**
Other		
Current (0 -30 days)	8,333,278	6,065,140
31 - 60 days	2,385,742	894,957
61 - 90 days	741,653	699,295
> 91 days	35,434,938	35,104,235
	46,895,611	**42,763,627**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(315,810,186)	(282,635,748)
Debt impairment written off against allowance	(22,466,724)	(33,174,438)
	(338,276,910)	**(315,810,186)**

Consumer receivables pledged as security

None of the consumer receivables were pledged as security.

None of the financial assets that are fully performing have been renegotiated in the last year.

Figures in Rand	2013	2012 Restated

3. Consumer receivables (continued)

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 2 months past due are not considered to be impaired. At 30 June 2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

Current (0-30 days)	25,214,959	22,328,543
31 - 60 days	4,750,259	56,511,452
>60 days	1,149,758	-

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

0 - 90 days	43,863,525	49,656,625
Over 90 days	494,175,898	441,105,307

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

4. Receivables from exchange transactions

Deposits	9,945,292	1,721,021
Deposits owed by consumers	12,887,019	13,138,833
Other receivables	4,003,837	3,857,001
	26,836,148	**18,716,855**

Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

5. Long term receivable

Consumer receivables - Non-current portion	5,922,083	10,478,684
Consumer receivables - Current portion	12,866,400	9,706,207

The long term receivable consists of consumer accounts with arrangements. These accounts bear no interest and is repayable in monthly installments of R200 if the debt was less than R15,000 and R250 if the debt was over R15,000. The repayment period is dependant on the balance of the account when the arrangement is made.

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

None of the long term receivables were pledge as security.

None of the long term receivables that are fully performing have been renegotiated in the last year.

The maximum exposure to credit risk at the reporting date is the carrying value of long term receivable mentioned above. The

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

5. Long term receivable (continued)

municipality does not hold any collateral as security.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	7,050	5,421
Bank balances	-	10,329,220
Other cash and cash equivalents	3,325,443	1,895,169
Bank overdraft	(37,970,227)	-
	(34,637,734)	**12,229,810**

Current assets	3,332,493	12,229,810
Current liabilities	(37,970,227)	-
	(34,637,734)	**12,229,810**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2013	**30 June 2012**	**30 June 2011**	**30 June 2013**	**30 June 2012**	**30 June 2011**
First National Bank - Current	(8,690,992)	23,041,068	8,410,317	(37,970,227)	10,329,220	9,282,664
First National Bank - Savings	3,325,443	1,895,168	237,959	3,325,443	1,895,169	237,959
Total	**(5,365,549)**	**24,936,236**	**8,648,276**	**(34,644,784)**	**12,224,389**	**9,520,623**

7. Inventories

Consumable stores	2,675,538	2,295,685
Fuel (Diesel, Petrol)	236	53,104
	2,675,774	2,348,789
Inventories (write-downs)	(3,184)	(3,184)
	2,672,590	**2,345,605**

8. Other financial assets

Fair value		
Listed shares - Sanlam	277,988	211,854
Sanlam life policy	352,262	331,992
	630,251	**543,847**
At amortised cost		
First National Bank	2,249,035	1,379,478
Standard Bank	69,365	66,286
	2,318,400	**1,445,764**
Total other financial assets	**2,948,651**	**1,989,611**
Non-current assets		
Fair value	277,989	211,855

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
Current assets		
Fair value	352,262	331,992
At amortised cost	2,318,400	1,445,764
	2,670,662	**1,777,756**

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1		
Listed shares	277,988	211,854
Level 2		
Life policy	352,263	331,993
	630,251	**543,847**

Renegotiated terms

None of the financial assets that are fully performing have been renegotiated in the last year.

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

Financial assets at amortised cost

Financial assets at amortised cost past due but not impaired

Financial assets which are less than 3 months past due are not considered to be impaired. At 30 June 2013, no accounts were pasted due.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of the financial assets mentioned above. The municipality does not hold any collateral as security.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

9. Receivables from non-exchange transactions

Rates	11,538,377	83,553,023
Money stolen	1,224,787	1,270,195
Insurance paid on behalf of Maluti Water (Pty) Ltd	8,039,554	8,039,554
	20,802,718	**92,862,772**

Details of money stolen:

August 2010	- Fraud of R5,539,228 was detected. The Free State High Court in Bloemfontein ordered the amount of R4,728,903 to be paid back to the municipality.
June 2012	- During a burgalary at the municipality's premises an amount of R397,558 was stolen.
2012 year	- Fraud was detected of R50,000. A refund of R46,000 was made to the municipality in August 2012.

Rates

Gross balance	211,300,891	258,504,770
Less: Allowance for impairment	(199,762,513)	(174,951,746)
Net balance	**11,538,378**	**83,553,024**

Ageing of rates

Current (0 - 30 days)	2,107,435	182,873
31 - 60 days	785,132	9,187,674
61 - 90 days	338,692	71,158,529
> 91 days	8,307,119	3,023,948
	11,538,378	**83,553,024**

Reconcillation of allowance for impairment

Balance at beginning of the year	(174,951,746)	(138,976,329)
Increase in the allowance for impairment	(24,810,767)	(35,975,417)
	(199,762,513)	**(174,951,746)**

10. VAT receivable

VAT	-	6,641,675

VAT is payable on the payment basis. VAT is paid over to the South African Revenue Services (SARS) only once payment is made and monies received.

11. Property, plant and equipment

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	586,884,988	-	586,884,988	586,884,988	-	586,884,988
Buildings	562,581,283	(120,208,474)	442,372,809	562,581,283	(89,699,885)	472,881,398
Infrastructure	3,545,222,001	(1,042,179,607)	2,503,042,394	3,538,752,360	(794,447,608)	2,744,304,752
Other assets	99,834,843	(61,086,656)	38,748,187	98,797,961	(45,132,223)	53,665,738
Heritage	36	(36)	-	36	(36)	-
Work in progress	787,044,024	-	787,044,024	518,162,594	-	518,162,594
Total	**5,581,567,175**	**(1,223,474,773)**	**4,358,092,402**	**5,305,179,222**	**(929,279,752)**	**4,375,899,470**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Depreciation	Total
Land	586,884,988	-	-	586,884,988
Buildings	472,881,398	-	(30,508,589)	442,372,809
Infrastructure	2,744,304,752	6,469,641	(247,731,999)	2,503,042,394
Other assets	53,665,738	1,036,882	(15,954,433)	38,748,187
Work in progress	518,162,594	268,881,430	-	787,044,024
	4,375,899,470	**276,387,953**	**(294,195,021)**	**4,358,092,402**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	619,483,988	-	-	-	-	(32,599,000)	586,884,98
Buildings	567,321,782	-	-	-	(32,936,630)	(61,503,754)	472,881,39
Infrastructure	3,009,107,590	674,601,073	-	50,635,320	(401,261,285)	(588,777,946)	2,744,304,75
Community assets	10,843,544	-	-	-	(432,900)	(10,410,644)	
Landfill sites	929,985	-	-	-	(107,891)	(822,094)	
Other assets	49,254,460	27,893,363	(916,384)	-	(22,565,701)	-	53,665,73
Heritage	82,000	-	(78,916)	-	(3,084)	-	
Work in progress	283,917,973	284,879,941	-	(50,635,320)	-	-	518,162,59
	4,540,941,322	**987,374,377**	**(995,300)**	**-**	**(457,307,491)**	**(694,113,438)**	**4,375,899,47**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

12. Investment property

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	30,308,627	(5,205,861)	25,102,766	30,308,627	(3,906,175)	26,402,452

Reconciliation of investment property - 2013

	Opening balance	Depreciation	Total
Investment property	26,402,452	(1,299,686)	25,102,766

Reconciliation of investment property - 2012

	Opening balance	Depreciation	Total
Investment property	30,308,627	(3,906,175)	26,402,452

Pledged as security

No investment property was pledged as security for loans at year end.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

13. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	945,769	(839,523)	106,246	945,770	(734,166)	211,604

Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Total
Computer software	211,604	(105,358)	106,246

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	286,943	28,822	(104,161)	211,604

Figures in Rand	2013	2012 Restated

13. Intangible assets (continued)

Pledged as security

None of the intangible assets have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

None of the assets are currently under a finance lease.

14. Investment in controlled entity

Name of company	Held by	% holding 2013	% holding 2012	Carrying amount 2013	Carrying amount 2012
Maluti-a-Phofung Water (Pty) Ltd	Maluti-a-Phofung Municipality	100.00 %	100.00 %	300	300

The carrying amounts of the controlled entity is shown net of impairment loss.

15. Payables from exchange transactions

	2013	2012 Restated
Trade payables	51,886,310	42,417,936
Accrued leave pay	25,500,559	21,672,906
Accrued bonus (13th cheque)	5,064,120	4,729,798
Deposits received	127,408	125,814
Sundry payables	35,895,707	121,220,077
Payments received in advance	96,107,272	10,553,579
	214,581,376	**200,720,110**

16. Consumer deposits

	2013	2012 Restated
Electricity and water	24,614,851	24,654,943

No interest accrues on the balance of the consumer deposits held by the municipality.

17. VAT payable

	2013	2012 Restated
VAT payable	12,992,771	-

The is currently a ongoing appeal with SARS regarding a assessment performed by them.

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2013	2012 Restated
Expanded Public Works Programme Incentive Grant (EPWPI)	2,359,953	1,160,170
RDP Houses	3,765,329	3,765,329
Electricity Demand Managment Grant (EDMG)	1,000,000	-
Serkfontein/Regional Balk Infrastructure Grant (RBIG)	-	2,194,879
Municipal Infrastructure Grant (MIG)	-	2,008,785
Municipal Systems Improvement Grant (MSIG)	-	623
Integrated National Electrification Programme (Eskom) Grant (INEP(Eskom)G)	579,914	1,903
Operation Hlasela Projects	450,000	450,000
Installation and Maintenance of Security Equipment	698,736	698,736
	8,853,932	**10,280,425**

Figures in Rand	2013	2012 Restated

18. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	10,280,425	19,542,164
Received during the year	294,524,641	298,530,948
Income recognition during the year	(295,951,134)	(307,792,687)
	8,853,932	**10,280,425**

19. Finance lease obligation

Minimum lease payments due		
- within one year	4,544,348	4,801,788
- in second to fifth year inclusive	3,301,559	8,315,174
	7,845,907	13,116,962
less: future finance charges	(798,970)	(1,914,959)
Present value of minimum lease payments	**7,046,937**	**11,202,003**
Present value of minimum lease payments due		
- within one year	3,389,208	3,527,472
- in second to fifth year inclusive	3,657,729	7,674,531
	7,046,937	**11,202,003**
Non-current liabilities	3,657,729	7,674,531
Current liabilities	3,389,208	3,527,472
	7,046,937	**11,202,003**

A contract was entered into by the municipality on 01 February 2012 with Bytes Document Solutions (Pty) Ltd for 26 printeres/fax/scancopier machines. The period of the contract is 36 months ending March 2014. The monthly rental amounts to R55,407.49. excluding VAT with a 8% escalation charge per annum as calculated from the commencement date 1 February 2012.

The interest rate implicit to the lease is calculated between 21% - 23% per annum.

Another contract has been entered into with Solar Spectrum on 31 December 2012 for the installation of energy efficient street lights. The period of the lease is 3 years ending on 31 December 2015. The monthly rentals varies from one phase to the next, however the average rental per quater is R956,56. The rental amounts are payable quarterly in advance with no escalation throughout the lease period.

The interest reate implicit is determined at 7.55%

The entity did not default on any of the principal or interest repayments during the period of the lease agreements. No terms of the lease contract were renegotiated.

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

Figures in Rand	2013	2012 Restated

20. Other financial liabilities

	2013	2012 Restated
At amortised cost		
Annuity loans	19,501,874	17,258,819
All annuity loans are from the Development Bank of South Africa and repayments are made on a six monthly basis.		

Loan acc no	Interest rate	Redeem date	Interest amount
11019/105	15.00%	31/12/2015	135,069.61
11021/102	15.00%	31/12/2015	35,050.72
11076/103	15.00%	30/06/2018	134,793.93
11076/202	15.00%	30/06/2018	138,805.93
11084/103	15.00%	31/12/2015	332,270.09
13768/102	15.63%	31/12/2020	110,850.07
13768/202	15.63%	31/12/2020	96,865.45
13766/302	15.63%	31/12/2021	124,679.46
61006/823	10.82%	30/06/2017	1,205,065.78
61006/824	11.50%	31/12/2031	165,978.09

	2013	2012 Restated
First National Bank Intabazwe Corridor	-	3,432,297
The loan was unsecured, bore interest at 11.45% per annum and was repayable in bi-annual instalments of R3,538,176.		
	19,501,874	**20,691,116**
Total other financial liabilities	**19,501,874**	**20,691,116**

The municipality did not default on any principal or interest repayments during the period for loans payable. No terms were renegotiated before the financial statemetns were authorised for issue.

	2013	2012 Restated
Non-current liabilities		
At amortised cost	17,016,609	14,146,848
Current liabilities		
At amortised cost	2,485,265	6,544,268

21. Taxes and transfers payable (non-exchange)

	2013	2012 Restated
National revenue fund	-	3,855,234
Other payables from non-exchange transactions	36,447	36,447
	36,447	**3,891,681**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

22. Provisions for closure

Reconciliation of provisions for closure - 2013

	Opening Balance	Additions	Change in unwinding discount	Total
Provision for landfill site closure	35,028,011	625,371	1,615,529	37,268,911

Reconciliation of provisions for closure - 2012

	Opening Balance	Additions	Total
Provision for landfill site closure	-	35,028,011	35,028,011

Provision for closure

The rehabilitation cost provision is for the rehabilitation programme of the landfill sites of the municipality. It is required from the municipality to execute an environmental management program to restore the landfill site after its useful life. The sites under consideration are Harrismith and Phuthaditjahaba. Both landfills accept only general waste. These sites are both operational, only Harrismith has a permit in terms of Section 20 of the Environment Conservation Act (Act 73 of 1989).

In order to determine the rehabilitation costs for each site the minimum requirements issued by the Department of Water Affairs and Forestry (DWAF) was used as guideline for the design of the capping layer as well as the capacity of the storm water drainage system. If a site is permitted/licensed, the relevant rehabilitation requirements are obtained from the above documentation according to the site's classification or as required in each permit. If a site is unpermitted/unlicensed, the classification is assumed according to the volume of waste received per day at the site, the type of waste received and the climatic region in which the site is located, i.e. the factors that determine the classification of a licensed site.

The actual costs are determined by calculating the volumes of excavations, materials required and legal requirements according to the footprint of each individual site. For a new estimated the rates used for each item of work is based on current rates for similar activities. If a previous estimate was done for a specific site then the previous year's figures are escalated using CPI. The individual rates are then again cross-checked to determine if they are still in line with current rates for similar activities and adjusted accordingly.

Provision has been made for this cost based on the estimated present value of future cash flows arising from the rehabilitation cost expected as at 30 June 2017 for the Phuthaditjhaba landfill site and 30 June 2024 for the Harrismith landfill site. The nett present values of the sites are based on a discount rate of 6%.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

23. Long service liability

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the long service bonus liability	16,797,000	11,750,000

Changes in the present value of the long service liability are as follows:		
Opening balance	11,750,000	11,033,000
Benefits paid	(998,000)	(1,573,000)
Net expense recognised in the statement of financial position	6,045,000	2,290,000
	16,797,000	**11,750,000**

Net expenses recognised in the statement of financial performance		
Service cost	1,835,000	1,757,000
Interest cost	928,000	871,000
Actuarial (gains) losses	3,282,000	(338,000)
	6,045,000	**2,290,000**

Key assumptions
The long service awards are a function of accumulated leave days. The portion of the long service bonus awards that is a function of annual leave days is convertible into cash in the year the employee attains the service eligible for an award. As a result the portion the award is also function of the employee's annual salary. The annual salary is converted into a daily salary by dividing the annual salary by 250.

The consumer price inflation of 6.25% p.a., rounded to the nearest .25%, is obtained from the differential between the long term market value yields on the index-linked bond (the R197 at 0.54% pa) consistent with the estimated term of the liabilities and those of nominal bonds (the R186 at 6.25% p.a.).

However, it is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values.

The assumption regarding the relative levels of these two rates is our expectation of the long-term average.

IAS19 defines the determination of the investment return assumptions to be used as the rate that can "be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bond or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligation." As such a discount rate of 7.25% p.a. has been used. This was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after market closed on 15 May 2013.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

23. Long service liability (continued)

The following key assumptions were used in the valuation:

	2013	2012 Restated
Discount rate	7.25 %	8.25%
CPI	6.25%	6.00%
Salary increase rate	7.15%	7.00%
Net discount rate	0.09	1.17%
Mortality	SA85-90	SA85-90
Normal retirement age	63	63

The following withdrawal assumptions were applicable over the 30 June 2013 financial year end:

Example at stated age	Withdrawal rates
20	12.0%
25	6.6%
30	5.1%
35	3.6%
40	2.6%
50	1.1%
55+	-

The following ill-health early retirement assumptions were applicable over the 30 June 2013 financial year end:

Example at stated age	Ill-health early retirement rates
31	0.02%
35	0.10%
40	0.20%
45	0.30%
50	0.50%
55	1.00%
60	1.80%
62	2.32%

Liability valuation method

Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date.

In order to determine these liabilities, due allowance has been made for future award increases.

For each employee, this projection is based on the probability of being employed at each service award date, taking into account the assumed rate of withdrawal, early retirement and death.

In accordance with the requirements if IAS19, the Projected Unit Credit method of funding has been applied.

	30 June 2010	30 June 2011	30 June 2012	30 June 2013
Defined benefit obligation	8,394,000	11,033,000	11,750,000	16,797,000
Experience adjustments on plan liabilities	-	1,242,000	379,000	2,158,000
	8,394,000	**12,275,000**	**12,129,000**	**18,955,000**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

24. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-partially or wholly funded	(9,344,000)	(9,344,000)
Net actuarial gains or losses not recognised	(1,472,000)	-
Expenses recognised	(365,000)	-
	(11,181,000)	**(9,344,000)**

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	9,344,000	8,480,000
Benefits paid	(516,000)	(473,000)
Net expense recognised in the statement of financial performance	2,353,000	1,337,000
	11,181,000	**9,344,000**

Net expense recognised in the statement of financial performance

Current service cost	123,000	102,000
Interest cost	758,000	701,000
Actuarial (gains) losses	1,472,000	534,000
	2,353,000	**1,337,000**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

24. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

	2013	2012 Restated
Discount rates used	7.25 %	8.25 %
Consumer price inflation	6.25 %	6.00 %
Health care cost inflation	6.75 %	6.75 %
Salary inflation	7.15 %	7.00 %
Net discount rate	0.47 %	1.41 %

It is the relative levels of discount rate and health care cost inflation to one another that are important, rather that the nominal values. The assumption regarding the relative levels of these two rates is our expectation of the long-term averages.

IAS19 defines the determination of the investment return assumption to be used as the rate that can "be determined by reference to market yield at the reporting date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yield (at the reporting date) on government bonds should be used. The currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations." As such a discount rate of 7.25% per annum has been used. This was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the market closed on 15 May 2013.

The health care cost inflation was taken at a discount of 0.5% to the discount rate of 7.25%. A lower discount rates was used due to the drastic drop in long yields. This was done in an effort to keep the health care cost inflation above the consumer price inflation, as has been experience in South Africa since 1999.

The consumer price inflation of 6.25% p.a. was obtained from the differential between the long term market yields on the index-linked bond (the R197 at 0.54% p.a.) consistent with the estimated term of the liabilities and those of nominal bond (the R186 at 6.92% p.a.)

Demographic assumptions
The demographic assumptions were consistent in the previous and current valuation period, and are as follows:

	Female	Male
Normal retirement age	65	65
Fully accrued age	63	63
Employment age used for part service period	Actual service entry ages	Actual service entry ages

Assumption	**Active employees**	**Pensioners**
Age difference between spouses	3 years	3 years
Proportion married	Assumed proportion married	Actual marital status used

The following proportion married assumptions in all the valuation periods were applied:

Age	Males	Females
20	5.0%	5.0%
25	25.0%	25.0%
30	55.0%	55.0%
35	78.0%	78.0%
40	84.0%	84.0%
45	85.0%	85.0%
50	86.0%	86.0%
55	88.0%	88.0%
60+	92.0%	92.0%

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

24. Employee benefit obligations (continued)

Decrement assumptions:
The same pre-retirement mortality table of SA85-90 and post-retirement mortality table of PA(90) as the previous valuation period was used.

Assumption	Active employees	Pensioners
Mortality	SA85-90 (Normal)	PA (90) -2

Liability valuation method:
The liability is taken as the present value of the employer's share of the continuation pensioners' contributions to the medical scheme. Continuation pensioner contributions are projected into each future year using the assumed rate of consumer price inflation and then discounted back using the discount rate.

For each active employee, this projection is based on the probability of survival to retirement age and beyond, taking into account the assumed rates of withdrawal, ill-health early retirement and mortality. For each pensioner, the liability stops when the pensioner and any remaining spouses are assumed to have died.

Valuation method
In accordance with the requirements of IAS19, the Projected Unit Credit Method of funding has been applied. The assumption underlying the funding method is that the employer's post-employment medical scheme costs in respect of an employee should be fully recognised by the time that the employee reaches fully accrued age.

Although this liability only vest at retirement (or to remaining beneficiaries in the event of early death in early retirement age) and is not necessarily affected by the length of service that an employee has had with the employer, accounting standards require that the liability for in-service employee accrue uniformly while in service.

The employer's liability is taken at the present value of the obligation to settle post-employment health care contributions excluding the portion of contribution funded by the pensioners.

It has been assumed that the medical contribution subsidies will increase in line with health care cost inflation. No allowances for volatility in the contributions due to fundamental changes in the underlying demographics of the scheme was made.

24. Employee benefit obligations (continued)

Other assumptions

The liability derived by this valuation is dependent on the assumptions set out above, which may or may not borne out in practice. Variations from these assumptions will emerge in future years as experience gains or losses and will be recognised by the municipality in accordance with consistently applied amortisation process.

The valuation results are sensitive to changes in the underlying assumptions. The effects of varying these assumptions are illustrated below.

Health care cost inflation
The valuation basis assumes that the health care cost inflation rate (which manifest itself as the annual increase of the total contribution subsidised by the employer) will be 0.47% less than the corresponding discount rate,in the long term. The effect of a one percent increase and decrease in the health care cost inflation rate is as follows:

	One percentage point increase	One percentage point decrease
Effect on employer's accrued liability	12,811,000	9,834,000
Effect on employer's service cost	198,000	128,000
Effect on employer's interest cost	909,000	693,000

Mortality
The table below shows the impact of a change in the mortality assumption from PA(90) with a two year adjustment to PA(90) with a year adjustment.

	Valuation basis PA (90) - 2	PA (90) -3
Employer's accrued liability	11,181,000	11,620,000
Employer's service cost	158,000	164,000
Employer's interest cost	792,000	823,000

Amounts for the current and previous four years are as follows:

	30 June 2013 R	30 June 2012 R	30 June 2011 R	30 June 2010 R	30 June 2009 R
Defined benefit obligation	11,181,000	9,344,000	8,480,000	7,547,000	-
Experience adjustments on plan	311,000	541,000	608,000	-	-

25. Financial instruments disclosure

Categories of financial instruments

2013

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	21,988,683	21,988,683
Receivables from non-exchange transactions	-	1,224,787	1,224,787
Cash and cash equivalents	-	3,332,493	3,332,493
Consumer receivables from exchange transactions	-	119,256,947	119,256,947
Consumer receivables from non-exchange transactions	-	11,538,377	11,538,377
Other financial assets	630,251	2,318,400	2,948,651
Long term receivables	-	18,788,483	18,788,483
	630,251	**178,448,170**	**179,078,421**

Financial liabilities

	At amortised cost	Total
Other payables from non-exchange transactions	36,447	36,447
Other financial liabilities	19,501,874	19,501,874
Payables from exchange transactions	214,581,375	214,581,375
Bank overdraft	37,970,227	37,970,227
Finance lease obligation	7,046,937	7,046,937
Consumer deposits	11,727,832	11,727,832
	290,864,692	**290,864,692**

2012

Financial assets

	At fair value	At amortised cost	Total
Receivables from non-exchange transactions	-	1,270,195	1,270,195
Cash and cash equivalents	-	12,229,810	12,229,810
Consumer receivables from exchange transactions	-	85,206,593	85,206,593
Consumer receivables from non-exchange transactions	-	83,553,023	83,553,023
Other financial assets	543,847	1,445,765	1,989,612
Long term receivable	-	20,184,891	20,184,891
	543,847	**203,890,277**	**204,434,124**

Financial liabilities

	At amortised cost	Total
Other payables from non-exchange transactions	3,891,681	3,891,681
Other financial liabilities	20,691,116	20,691,116
Trade and other payables from exchange transactions	200,720,113	200,720,113
Bank overdraft	37,970,227	37,970,227
Finance lease obligation	11,202,003	11,202,003
Consumer deposits	11,516,110	11,516,110
	285,991,250	**285,991,250**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

26. Revenue

Fines	938,254	5,047,124
Government grants and subsidies	634,002,409	613,149,494
Interest received - investment	1,902,787	2,017,989
Interest received - Consumers	22,438,128	30,614,449
Other income	11,859,028	102,758,203
Property rates	147,150,223	172,500,680
Rental of facilities and equipment	1,000,633	922,252
Service charges	318,976,926	331,038,724
	1,138,268,388	**1,258,048,915**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	318,976,926	331,038,724
Rental of facilities and equipment	1,000,633	922,252
Interest received - consumers	22,438,128	30,614,449
Other income	11,859,028	102,758,203
Interest received - investment	1,902,787	2,017,989
	356,177,502	**467,351,617**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Fines	938,254	5,047,124
Property rates	147,150,223	172,500,680
Transfer revenue		
Government grants & subsidies	634,002,409	613,149,494
	782,090,886	**790,697,298**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

27. Property rates

Rates received

Residential	12,908,347	15,331,526
Industrial / Commercial	22,948,360	25,164,929
National and Provincial Government	111,293,516	132,004,225
	147,150,223	**172,500,680**

Valuations

Residential	2,697,026,895	2,717,304,005
Commercial	1,557,247,038	1,386,616,424
National and Provincial Government	1,311,830,943	25,491,084,062
Municipal	307,509,660	226,457,882
	5,873,614,536	**29,821,462,373**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2010. Interim valuations are processed on a bi-annual basis to take into account changes in individual property values due to alterations and subdivision.

General rates applied in valuations	**2013**	**2012**
Residential properties	0.0076	0.0076
Business and industrial properties	0.0380	0.0380
State owned, agricultural and public benefit organisations	0.0951	0.0951

Rebates granted	**2013**	**2012**
Agricultural land and undeveloped properties (excl rural state owned properties)	90%	90%
Residential development properties	98%	98%
Developed properties	95%	95%
State owned properties	0%	0%
Pensioners, indigents and public benefit organisations	100%	100%

28. Service charges

Sale of electricity	222,996,107	231,466,936
Sale of water	47,914,971	52,542,585
Sewerage and sanitation charges	27,615,295	26,130,310
Refuse removal	20,450,553	20,898,893
	318,976,926	**331,038,724**

Figures in Rand	2013	2012 Restated

29. Government grants and subsidies

Operating grants		
Equitable share	338,051,274	305,453,000
Municipal Systems Improvement Grant (MSIG)	800,623	790,000
RDP House Grant	-	121,087
Water Services Operating Subsidy (DWAF) Grant (WSOSG)	7,661,000	7,661,003
Local Goverment Financial Managment Grant (LGFMG)	1,500,000	1,450,170
Installation and Maintenance of Security Equipment	-	3,294,399
	348,012,897	318,769,659
Capital grants		
Expanded Public Works Programme Incentive Grant (EPWPIG)	11,906,217	13,642,680
Electricity Demand Management Grant (EDMG)	2,000,000	-
Sterkfontein/Regional Bulk Infrastructure Grant (RBIG)	52,810,521	71,782,012
Integrated National Electrification Programme (Eskom) Grant (INEP(Eskom)G)	9,421,989	39,598,097
Municipal Infrastructure Grant (MIG)	209,850,785	169,357,046
	285,989,512	294,379,835
	634,002,409	**613,149,494**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	295,951,136	307,696,494
Unconditional grants received	338,051,273	305,453,000
	634,002,409	**613,149,494**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 6kl of free water and 50kW of free electricity, which is credited tot their accounts.

Expanded Public Works Programme Incentive Grant for Municipalities (EPWPI)

Balance unspent at beginning of year	1,160,170	6,553,850
Current year receipts	13,106,000	8,249,000
Conditions met - transferred to revenue	(11,906,217)	(13,642,680)
	2,359,953	**1,160,170**

Conditions still to be met - remain liabilities (see note 18). Projects still in progress, all conditions to be met in next financial year.

The purpose of the grant is to improve quality of life of poor people and increase soscial stability through engaging the previously unemployed in paid and productive activities; to reduce levels of poverty; contribute towards increased levels of employment and improve opportunities for sustainable work through experience and learning gained.

Local Goverment Financial Managment Grant (LGFMG)

Balance unspent at beginning of year	-	170
Current year receipts	1,500,000	1,450,000
Conditions met - transferred to revenue	(1,500,000)	(1,450,170)
	-	-

Figures in Rand	2013	2012 Restated

29. Government grants and subsidies (continued)

The purpose of the grants is to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

RDP Houses Grant

Balance unspent at beginning of year	3,765,329	3,886,416
Conditions met - transferred to revenue	-	(121,087)
	3,765,329	**3,765,329**

Conditions still to be met - remain liabilities (see note 18). Project still in progress, expected to be complete in next financial year.

The purpose of the grant is for the construciton of low cost housing in the municipal area.

Electricity Demand Management Grant (EDMG)

Current year receipts	3,000,000	-
Conditions met - transferred to revenue	(2,000,000)	-
	1,000,000	**-**

Conditions still to be met - remain liabilities (see note 18) Projcet still in progress, expected to be completed in next financial year..

The purpose of the grant is to provide subsidies to the municipality to implement Electricity Side Demand Management in municipality infrastructure in order to reduce electricity consumption and improve energy efficiency.

Sterkfontein/Regional Balk Infrastructure Grant (RBIG)

Balance unspent at beginning of year	2,194,879	2,433,261
Current year receipts	50,615,642	71,543,630
Conditions met - transferred to revenue	(52,810,521)	(71,782,012)
	-	**2,194,879**

The purpose of the grant is to develop infrastructure required to connect or augment a water resource, to infrastructure serving extensive areas across municipal boundaries or large regional bulk infrastructure serving numerous communities over a large arew within the municipality.

Water Services Operating Subsidy Grant (DWAF) (WSOSG)

Current year receipts	7,661,000	7,661,000
Conditions met - transferred to revenue	(7,661,000)	(7,661,000)
	-	**-**

The purpose of the grant is subsides and build capacity in water schemes owned and/or operated by the Department of Water Affairs (DWA) or by other agencies on behalf of the department and transfer these schemes to local government.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	2,008,785	29,831
Current year receipts	207,842,000	171,336,000
Conditions met - transferred to revenue	(209,850,785)	(169,357,046)
	-	**2,008,785**

29. Government grants and subsidies (continued)

The purpose of the grant is to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

29. Government grants and subsidies (continued)

Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	623	623
Current year receipts	800,000	790,000
Conditions met - transferred to revenue	(800,623)	(790,000)
	-	**623**

The purpose of the grant is to assist municipalities to build in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Systems Act (MSA) and related legislation, policies and the local government turnaround strategy.

Integrated National Electrification Programme (Eskom) Grant (INEP(Eskom)G)

Balance unspent at beginning of year	1,903	-
Current year receipts	10,000,000	39,600,000
Conditions met - transferred to revenue	(9,421,989)	(39,598,097)
	579,914	**1,903**

Conditions still to be met - remain liabilities (see note 18). Projects is still in progress, expected to be complete in next financial year.

The purpose of the grant is for the municipality to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure to order to improve quality of supply.

Operation Hlasela Projects

Balance unspent at beginning of year	450,000	450,000

Conditions still to be met - remain liabilities (see note 18). Projects is still in progress, expected to be complete in next financial year.

The purpose of the grant is to capacitate local businesses through training and transformation.

Installation and Maintenance of Security Equipment

Balance unspent at beginning of year	698,736	3,993,134
Conditions met - transferred to revenue	-	(3,294,398)
	698,736	**698,736**

Conditions still to be met - remain liabilities (see note 18). Projects is still in progress, expected to be complete in next financial year.

The purpose of the grant is for the installation and maintenance of security around the Lesotho and Maluti-a-Phofung border.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

30. Other income

Accompanying vehicles	22,469	20,154
Advertising	87,469	47,497
Blockages	18,451	18,311
Commission received	198,445	287,558
Connection and reconnections fees	526,575	555,007
Conservancy services	24,234	20,625
Donations	-	70,000
Income from valuations	44,919	52,520
Insurance claims received	107,232	1,002,576
Private work	307	5,191
Other income	3,860,334	3,696,594
Storage fees	37,520	25,340
Sale of erven	3,036,590	1,725,913
Sale of tender documents	350,375	282,070
Searching fees	20,949	21,915
Telephone income	43,799	136,114
Dividends received	-	6,933
Medical Aid income	393,551	370,920
Clearance certificates	29,162	26,912
Income from festivals	2,023,500	-
Sundry credits	333,661	5,874,902
Photocopies	7,090	17,483
Restatement of assets	-	87,622,276
Training income	692,396	871,392
	11,859,028	**102,758,203**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

31. General expenses

Advertising	550,154	542,123
Auditors remuneration	4,083,977	4,454,069
Bank charges	1,803,390	1,691,507
Capacity building	136,452	189,673
Cleaning	462,455	280,792
Consulting and professional fees	947,852	2,531,529
Consumables	1,273,642	1,069,346
Departmental charges	7,134,936	14,045,203
Entertainment	732,296	943,723
Insurance	41,971,467	33,292,314
Impairment	-	695,108,738
IT expenses	303,389	568,148
Lease rentals on operating lease	4,145,416	741,037
Hostel charges	4,754,000	2,368,121
Indigent subsidy	10,390,469	6,149,258
Magazines, books and periodicals	17,010	17,900
Mayoral fund	472,917	190,570
Motor vehicle expenses	253,724	405,362
MSIG Expenditure	800,000	1,042,175
Fuel and oil	5,903,117	5,956,416
Other expenses	730,804	912,436
Postage and courier	2,509,038	2,114,018
Promotions and sponsorships	2,179,107	368,493
Protective clothing	5,640,412	2,304,749
Project maintenance costs	24,700	38,620
Staff welfare	2,585,492	396,741
Subscriptions and membership fees	2,221,356	575,765
Telephone and fax	2,738,551	2,784,308
Training	813,927	1,070,976
Travel - local	71,850	119,876
Valuation costs	547,880	3,234,608
Service costs	1,958,000	1,859,000
Venue expenses	1,196,900	3,353,680
Bursaries	131,941	-
	109,486,621	**790,721,274**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

32. Employee related costs

Basic	126,957,591	113,856,787
Bonus	9,146,852	12,025,621
Medical aid - company contributions	6,803,150	5,884,926
UIF	1,222,969	1,098,025
WCA	62,007	-
SDL	1,570,430	1,380,983
Leave pay accrual	4,889,402	18,148,156
Group insurance	339,962	187,706
Post-employment benefits - pension - defined contribution plan	19,945,914	18,160,623
Travel, motor car, accommodation, subsistence and other allowances	1,834,322	1,596,997
Overtime payments	12,222,816	10,098,078
Acting allowances	164,361	7,004
Car allowance	3,600,841	2,875,629
Housing benefits and allowances	594,667	516,129
Telephone / cellphone allowance	391,084	267,400
Standby allowance	1,038,715	899,758
Bargaining council contribution	78,691	55,161
Tool allowance	720	720
Long-term benefits - incentive scheme	(128,339)	-
	190,736,155	**187,059,703**

Remuneration of the Municipal Manager

Annual remuneration	763,543	505,438
Cellphone allowance	33,000	24,000
Travel allowance	178,311	120,000
Municipality contributions to UIF, medical and pension funds	152,303	121,111
Leave payout	41,802	68,565
	1,168,959	**839,114**

There were two Municipal Managers for the period July 2012 - June 2013:
Mr RS Kau for the period July 2012 to September 2012.
Mr LMD Ntombela for the period October 2012 to June 2013.

Remuneration per Municipal Manager was as follows:

2013	**RS Kau**	**LMD Ntombela**	**Total**
Annual remuneration	148,567	614,977	763,544
Cellphone allowance	6,000	27,000	33,000
Travel allowance	30,000	148,311	178,311
Municipality contributions to UIF, medical and pension funds	32,693	119,610	152,303
Leave payout	41,801	-	41,801
	259,061	**909,898**	**1,168,959**

Remuneration of the Chief Finance Officer

Annual remuneration	202,365	483,083
Cellphone allowances	7,500	18,000
Travel allowance	70,900	170,160
Municipality contributions to UIF, medical and pension funds	57,028	131,247
Travel reimbursive allowance	57,932	41,683
Leave payout	83,536	-
	479,261	**844,173**

Figures in Rand	2013	2012 Restated

32. Employee related costs (continued)

Mr TJ Ramulondi was the Chief Finance Officer for the period July 2012 to November 2012.
No new Chief Finance Officer has yet been appointed. Mr N Molefe is currently the acting Chier Finance Officer.

Remuneration of the Director of Municipal Infrastructure

	2013	2012 Restated
Annual Remuneration	753,828	538,332
Cellphone Allowance	18,000	12,740
Travel Allowance	199,342	125,546
Municipality contributions to UIF, medical and pension funds	52,368	42,284
Travel Reimbursive Allowance	17,314	2,643
Leave payout	-	9,573
	1,040,852	**731,118**

Mr HW Ungerer was the Director of Municipal Infrastructure for the period July 2012 to June 2013.

Remuneration of the Director of Local Economic Development & Tourism

	2013	2012 Restated
Annual remuneration	660,526	725,373
Cellphone allowance	18,000	18,000
Travel allowance	168,302	120,000
Municipality contributions to UIF, medical and pension funds	73,465	9,941
Travel reimbursive allowance	7,465	-
Leave pay-out	140,745	-
	1,068,503	**873,314**

There were two Directors of Local Economic Development & Tourism for the period July 2012 - June 2013:
Mr S Mhlambi was for the period July 2012 to December 2012.
Mr FP Mothamaha was for the period January 2013 to June 2013.

Remuneration per Director of Local Economic Development & Tourism was as follows:

2013	**S Mhlambi**	**FP Mothamaha**	**Total**
Annual Remuneration	366,526	294,000	660,526
Cellphone allowance	9,000	9,000	18,000
Travel allowance	60,000	108,302	168,302
Municipality contributions to UIF, medical and pension funds	-	7,465	7,465
Travel reimbursive allowance	6,499	66,966	73,465
Leave pay-out	140,746	-	140,746
	582,771	**485,733**	**1,068,504**

Remuneration of the Director of Public Safety

	2013	2012 Restated
Annual remuneration	646,682	555,522
Cellphone allowance	18,000	12,740
Travel allowance	199,805	111,085
Municipality contributions to UIF, medical and pension funds	155,155	122,639
Travel reimbursive allowance	47,531	29,057
Leave payout	-	8,325
	1,067,173	**839,368**

Mr MW Matjele was the Director of Public Safety for the period July 2012 to June 2013.

Figures in Rand	2013	2012 Restated

32. Employee related costs (continued)

Remuneration of the Director of Corporate Services

Annual remuneration	510,125	488,920
Cellphone allowance	11,650	12,000
Travel allowance	116,500	120,000
Municipality contributions to UIF, Medical and pension Funds	8,464	7,519
Travel reimbursive allowance	30,232	16,296
Leave payout	68,480	-
	745,451	**644,735**

Mr VJ Matshila was the Director of Corporate Services for the period July 2012 to June 2013.

Remuneration of the Director of Parks, Sport, Recreation, Arts & Culture

Annual remuneration	246,072	460,758
Cellphone allowance	6,000	12,000
Travel allowance	80,000	100,000
Municipality contributions to UIF, medical and pension Funds	3,756	36,852
Travel reimbursive allowance	8,731	4,772
Leave payout	-	66,508
	344,559	**680,890**

This position was vacant for the period July 2012 to February 2013.
Mr TC Taetsane was the Director of Parks, Sport, Recreation, Arts & Culture for the period March 2013 to June 2013.

Remuneration of the Director of Community Services

Annual remuneration	701,386	533,421
Cellphone allowance	18,000	12,740
Travel allowance	173,313	120,705
Municipality contributions to UIF, medical and pension funds	126,955	86,550
Travel reimbursive allowance	12,189	-
Leave payout	-	8,804
	1,031,843	**762,220**

Mr PP Selepe was the Director of Community Services for the period July 2012 to June 2013.

Remuneration of the Director of Housing, Spatial Development & Planning

Annual Remuneration	575,209	433,900
Cellphone Allowance	16,500	18,000
Travel Allowance	132,700	116,245
Municipality contributions to UIF, medical and pension funds	121,100	94,934
Travel reimbursive allowance	47,762	35,744
Leave payout	35,090	-
	928,361	**698,823**

Ms PM Hleli was the Director of Housing, Spatial Development and Planning for the period July 2012 to June 2013.

The remuneration of staff is within the upper limits of the SALGA Bargaining Councillors Determinations.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

32. Employee related costs (continued)

Summary of employee related costs		
Employee remuneration (as per above)	190,736,155	187,059,703
Remuneration of the Municipal Manager	1,168,959	839,114
Remuneration of the Chief Financial Officer	479,261	844,173
Remuneration of the Director of Municipal Infrastructure	1,040,852	731,118
Remuneration of Local Development and Tourism	1,068,503	873,314
Remuneration of Director of Public Safety	1,067,173	839,368
Remuneration of Director of Corporate Services	745,451	644,735
Remuneration of Director Parts, Sport, Recreation, Arts and Culture	344,559	680,890
Remuneration of Director of Community Service	1,031,843	762,220
Remuneration of Director of Housing, Spatial Development and Planning	928,361	698,823
	198,611,117	**193,973,458**

33. Remuneration of councillors

Executive Mayor	727,977	677,968
Mayoral Committee Members	6,143,806	5,055,513
Speaker	614,653	552,830
Councillors	11,903,518	11,215,221
	19,389,954	**17,501,532**

Notes to the Annual Financial Statements

33. Remuneration of councillors (continued)

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.

The remuneration of the political office-bearers and councillors are within the upper limits of the framework envisaged in section 219 of the Constitution.

Executive Mayor's Remuneration for the 2012/2013 year	Annual Remuneration	Travel / Reimbursive Allowance	Cellphone Allowance	Data Allowance	Municipality Contributions	Total
Moleleki SSM (November '12 - June '13)	449,770	4,243	26,379	2,100	19,428	501,920
Mopedi P (June '12 - October '12)	133,109	52,945	12,584	-	27,419	226,057
	582,879	**57,188**	**38,963**	**2,100**	**46,847**	**727,977**

Mayoral Committee Members' Remuneration for the 2012/2013 year	Annual Remuneration	Travel / Reimbursive Allowance	Cellphone Allowance	Data Allowance	Municipality Contributions	Total
Lebesa MJ	214,992	100,592	13,162	2,100	45,273	376,119
Lefora QW	98,580	44,629	6,280	-	21,804	171,293
Majake MI	98,580	39,709	6,280	-	21,804	166,373
Mboso LA	297,392	-	13,162	2,100	46,042	358,696
Mohlabi ML	225,010	86,302	13,162	2,100	35,227	361,801
Mohlekwa TR	98,580	46,284	6,280	-	21,804	172,948
Mokoena M	318,814	130,019	19,442	2,100	67,103	537,478
Mokotso GT	333,840	125,168	19,442	2,100	52,033	532,583
Mokubung ML	333,840	129,692	19,442	2,100	52,033	537,107
Mopeli N	103,588	39,709	6,280	-	16,781	166,358
Mosia MM	318,814	144,330	19,442	2,100	67,103	551,789
Mositi M	318,814	142,467	19,442	2,100	67,103	549,926
Motaung SJ	98,580	39,709	6,280	-	21,804	166,373
Nhlapo MA	227,774	116,942	13,162	2,100	35,227	395,205
Thebe TR	225,010	93,668	13,162	2,100	35,227	369,167
Tshabalala VW	337,327	20,524	13,162	2,100	3,428	376,541
Tsotetsi MJ	218,694	88,011	11,592	2,100	33,653	354,050
	3,868,229	**1,387,755**	**219,174**	**25,200**	**643,449**	**6,143,807**

Speaker's Remuneration for the 2012/2013 year	Annual Remuneration	Travel / Reimbursive Allowance	Cellphone Allowance	Data Allowance	Municipality Contributions	Total
Nthedi AM	341,208	181,478	19,442	2,100	70,425	614,653

Councillors' remuneration for the 2012/2013 year	Annual Remuneration	Travel / Reimbursive Allowance	Cellphone Allowance	Data Allowance	Municipality Contributions	Total
Crockett M	120,429	49,180	12,126	2,100	33,986	217,821
Hlatswayo TF	133,536	49,180	12,126	2,100	20,841	217,783
Khambule M	167,556	-	12,126	2,100	36,001	217,783
Khoapa NA	176,301	-	12,126	2,100	27,231	217,758
Khoari MI	133,536	49,180	12,126	2,100	20,841	217,783
Kleynhans LM	133,536	49,180	12,126	2,100	20,841	217,783
Komako M	133,536	49,180	12,126	2,100	20,841	217,783
Lebesa MB	133,536	49,180	12,126	2,100	20,841	217,783

Notes to the Annual Financial Statements

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33. Remuneration of councillors (continued)

Lebesa MJ	36,427	15,884	3,916	-	11,742	67,969
Lebesana PJ	118,510	49,180	12,126	2,100	35,911	217,827
Letaoane TT	176,301	-	12,126	2,100	27,232	217,759
Letooane SG	201,960	-	12,126	2,100	2,064	218,250
Mahamuza LP	133,535	49,180	12,126	2,100	20,842	217,783
Mahlambi TJ	133,535	49,180	12,126	2,100	20,842	217,783
Mahlatsi A	150,642	29,508	12,126	2,100	23,398	217,774
Majake M	92,333	33,296	8,210	2,100	17,717	153,656
Masheane DA	176,300	-	12,126	2,100	27,232	217,758
Matjele MP	176,300	-	12,126	2,100	27,232	217,758
Mavuso MT	133,536	49,180	12,126	2,100	20,841	217,783
Mazibuko MR	176,300	-	12,126	2,100	27,232	217,758
Mbongo MJ	133,536	49,180	12,126	2,100	20,841	217,783
Mboso LA	55,247	-	3,916	-	8,783	67,946
Mdakane HF	55,247	-	3,916	-	8,783	67,946
Mkhwanazi TI	196,200	-	12,126	2,100	7,824	218,250
Mofana MM	133,535	49,180	12,126	2,100	20,842	217,783
Mofokeng BD	150,642	29,508	12,126	2,100	23,469	217,845
Mofokeng K	176,300	-	12,126	2,100	27,232	217,758
Mohlambi ML	41,435	15,884	3,916	-	6,719	67,954
Mohlekwa TR	87,325	33,296	8,210	2,100	24,194	155,125
Mohoaladi ME	135,615	29,508	12,126	2,100	38,467	217,816
Mojakisane NS	133,536	49,180	12,126	2,100	20,841	217,783
Mokoena L	133,536	49,180	12,126	2,100	20,841	217,783
Mokoena DJ	133,536	49,180	12,126	2,100	20,841	217,783
Molaba TE	133,536	49,180	12,126	2,100	20,841	217,783
Moloi L	133,536	49,180	12,126	2,100	20,841	217,783
Mopeli MS	176,300	-	12,126	2,100	27,232	217,758
Mopeli N	97,342	33,296	8,210	2,100	14,148	155,096
Moseme LA	133,535	49,180	12,126	2,100	20,842	217,783
Mosikidi TJ	176,300	-	12,126	2,100	27,232	217,758
Mosikili MF	138,425	-	8,210	2,100	1,330	150,065
Mosikili ST	118,510	49,180	12,126	2,100	35,910	217,826
Motaung ME	176,300	-	12,126	2,100	27,232	217,758
Motaung PM	164,495	-	12,126	2,100	39,071	217,792
Motaung SJ	96,090	33,296	8,210	2,100	15,404	155,100
Motloung M	118,510	49,180	12,126	2,100	35,910	217,826
Mpakathe M	201,960	-	12,126	2,100	2,064	218,250
Mphonyo MA	138,472	11,944	-	-	36,524	186,940
Nhlapo MA	55,247	-	3,916	-	8,783	67,946
Ntamane VM	133,536	49,180	12,126	2,100	20,841	217,783
Ramakarane TA	176,300	-	12,126	2,100	27,232	217,758
Ramochela A	176,300	-	12,126	2,100	27,232	217,758
Rantsane J	176,300	-	12,126	2,100	27,232	217,758
Sehlako KM	133,535	49,180	12,126	2,100	20,842	217,783
Seobi MJ	133,535	49,180	12,126	2,100	20,842	217,783
Sephula S	176,300	-	12,126	2,100	27,232	217,758
Shabalala M	176,300	-	12,126	2,100	27,232	217,758
Taaso BM	176,300	-	12,126	2,100	27,232	217,758
Thakhuli N	176,300	-	12,126	2,100	27,232	217,758
Thebe TR	41,435	15,884	3,916	-	6,719	67,954
Tolofi M	124,791	49,180	12,126	2,100	29,611	217,808
Tsotetsi MJ	51,794	19,855	4,895	-	8,399	84,943
	8,314,619	**1,481,479**	**651,489**	**111,300**	**1,344,627**	**11,903,514**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

34. Community project expenditure

Capital expenditure acquired during the year	285,763,989	243,639,662
Less: Asset capitalised	(242,372,310)	(138,985,285)
	43,391,679	**104,654,377**

35. Debt impairment

Contributions to debt impairment provision	47,277,490	69,149,854
Debts impaired	8,931,786	27,359,431
	56,209,276	**96,509,285**

36. Investment revenue

Interest revenue		
Interest on investment	1,902,787	2,017,989

37. Fair value adjustment

Financial assets	86,404	540,557
Property, plant and equipment	-	624,200,098
	86,404	**624,740,655**

38. Depreciation and amortisation

Property, plant and equipment	294,195,020	454,704,552
Investment property	1,299,685	3,906,175
Intangible assets	105,357	104,161
	295,600,062	**458,714,888**

39. Finance costs

Non-current borrowings	8,812,646	6,889,779
Bank	106,374	573,019
	8,919,020	**7,462,798**

40. Auditors' remuneration

Fees	4,083,977	4,454,069

41. Rental of facilities and equipment

Premises		
Premises	902,879	808,510
Facilities and equipment		
Rental of facilities	97,754	113,742
	1,000,633	**922,252**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

42. Contracted services

Information technology services	1,668,654	1,373,527
Debt collectors	38,757,447	-
Operating leases	1,249,238	1,510,791
Specialist services (Call outs, refuse collectiors and cash management services)	15,474,840	13,818,031
Other contractors	26,880,464	25,559,090
	84,030,643	**42,261,439**

43. Grants and subsidies paid

Other subsidies		
DWAF subsidy to Maluti-a-Phofung Water (Pty) Ltd	18,061,167	7,661,000
Equitable shares to Maluti-a-Phofung Water (Pty) Ltd	59,661,833	66,726,000
	77,723,000	**74,387,000**

44. Bulk purchases

Electricity	259,302,950	299,513,433
Water	33,925,169	38,999,679
	293,228,119	**338,513,112**

45. Repairs and maintenance

Buildings	1,363,375	383,618
Office machines	30,861	380,418
Equipment and tools	148,968	194,945
Streets and stormwater	56,902	36,000
Roads	40,871,501	26,990,107
Vehicles	4,016,305	2,805,643
Street and traffic lights	18,599,849	7,463,754
Fencing, grounds and open spaces	820,324	541,057
Network reticulation	12,187,657	3,247,249
Substations	626,834	580,253
Railway sidings	832,620	-
Other	245,044	284,564
	79,800,240	**42,907,608**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

46. Cash generated from operations

Deficit	(128,034,939)	(284,817,202)
Adjustments for:		
Depreciation and amortisation	295,600,062	458,714,888
Fair value adjustments	(86,404)	(624,740,655)
Debt impairment	56,209,276	96,509,285
Movements in operating lease asset and accruals	-	(13,969)
Movements in retirement benefit assets and liabilities	1,837,000	864,000
Movements in provisions	2,240,900	35,028,011
Impairment	-	694,113,439
Changes in working capital:		
Inventories	(326,985)	(233,736)
Receivables from exchange transactions	(8,119,293)	715,959
Other receivables from non-exchange transactions	72,060,054	28,337,226
Consumer receivables	(90,259,630)	(131,717,999)
Payables from exchange transactions	13,861,265	37,694,410
VAT	19,634,455	(2,828,559)
Taxes and transfers payable (non exchange)	(3,855,234)	-
Unspent conditional grants and receipts	(1,426,493)	(7,066,860)
Consumer deposits	(40,092)	(304,055)
	229,293,942	**300,254,184**

47. Commitments

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	6,857,259	972,856

Operating lease payments represent rentals payable by the municipality for certain motor vehicles. The operating lease contracts contains variable rental rates and is subject to changes and the contract is cancellable at any time. The above is based on the assumption that the rate will be fixed for the next year and the motor vehicles will be used for the next 12 months. The total rent paid in the 2013 financial year amounts to R8,231,970.38.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	125,200	113,212
- in second to fifth year inclusive	23,661	148,862
	148,861	**262,074**

The council leases various fixed properties under non-cancellable operating leases to various parties. The lease agreements have contains escalations of 10% or 12% per year with the agreements varying from 5 to 9 years and 11 months. Rental income, from these agreements, to the value of R113,212.10 (2012 R155,930.87) has been recognised in the statement of financial performance during the year.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

48. Contingencies

Management can not reliably estimate the financial effect of the claims due to uncertainties relating to when the cases will be resolved and management are not able to reliably determine the amount payable. The amount disclosed, where applicable, reflects the claim against the council.

There is no reimbursements from any third party for potentional obligations of the municipality.

All claims are being contested based on legal advice.

Litigation in the process against the council relating to civil claims include the following:		
Liabilities		
Claims by Council for overpayment and contra claim by supplier for alleged breach of contract:		
- Claims for alleged breach of contract	13,000,000	16,827,744
- Claim by Council for overpayment to supplier	-	4,551,777
Claims for services rendered	10,073,975	-
Claim by individuals for damages	2,332,639	2,432,128
Claims on arrear payments	-	962,504
Additional litigation from lawyers confirmation	-	54,884
Assets		
Claim by Council for overpayment to supplier	(177,429)	-
Claim by council for tenders unauhtorised tenders awarded	(4,732,835)	-
	20,496,350	**24,829,037**

Litigations in the process against the Council relating to labour arbitration including the following:		
Constructive dismissal	60,000	-

49. Related parties

Relationships

Controlled entities	Refer to note 14

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties		
Maluti-a-Phofung Water (Pty) Ltd	(51,886,315)	(42,376,103)
Maluti-a-Phofung Water (Pty) Ltd (Insurance)	8,039,590	8,039,590
Maluti-a-Phofung Water (Pty) Ltd (Fleet management)	253,525	133,534
Amounts included in the consumer receivables		
Maluti-a-Phofung Water (Pty) Ltd	6,428,823	472,650
Maluti-a-Phofung Water (Pty) Ltd	-	150,321
Amounts included in grants and subsidies paid		
Maluti-a-Phofung Water (Pty) Ltd	77,723,777	74,387,000
Amounts included in the bulk purchases		
Maluti-a-Phofung Water (Pty) Ltd	33,922,563	38,999,679

Notes to the Annual Financial Statements

50. Prior period errors

1. Payables from Exchange transactions

In the 2011/2012 year a amount of R5,525 was incorrectly allocated to a loan account instead of the other income account named Medical Aid Peb.

The prior year has been amended to account for this error. This will result in a decrease in payables from exchange transaction and an increase in other income.

It was found that the leave payable leave provision was incorrectly calculated the previous year. The leave provision was understated with R20,418,439. The prior year has been amended to account for this error. This will result in increase in payables from exchange transactions and a decrease in Employee related costs.

It was also found that the leave pay provision for the 2009/2010 en 2010/2011 was never reversed. The total leave pay provision to reverse is R10,866,157. The prior year has been amend to account for this error. This will result in decrease in leave pay provision and a decrease in Employee related costs.

2. Inventory

Management concluded that the water inventory management rest with Maluti-a-Phofung Water (Pty) Ltd and no water inventory need to be disclosed in Maluti-a-Phofung. the water inventory, amounting to R37,532, which existed in the books of the municipality was written off against the accumulated surplus.

The prior years has been amended to account for this restatement This will result in a decrease in inventories and decrease in other income.

3. Value Added Tax

It was found that VAT was incorrectly claimed on an invoice for staff training incurred on 20 September 2011. The VAT incorrectly claimed amount to R4,912.

VAT was not declared on an insurance claim received on 12 January 2012, VAT amounting to R152,280.70. VAT was also not declared on commission received on 19 July 2011, VAT amounting to R1,292.

It was found that in the 2010/2011 year VAT was incorrectly calculated on a portion of the revenue recognition of the Unconditional Grant Serkfontein/RBIG Grant. The VAT amounts to R2,194,879

The prior years have been amended to account for this errors.

4. Cash and cash equivalents

It was found that the cash float doesn't agree to the confirmations received from cashiers. The difference of R400 was carried over from the prior year.

The prior year have been amended to account for this error.

5. Other matters

During the year the following error/adjustments were found relating to the 2011/2012 year:
- Salary payments in terms of the prior month (prior year) of R35,739 was paid July 2012, as determined by a councilor's resolution.
- Salary and wages of R6,847.69 was identified that was never paid and allocated to salary suspense account.
- Cheque's amounting to R29,028 was identified to be stale and was written back to the expenses.
- 2 reversal of R7,178 and R33,619 was incorrectly reversed against the Stock control vote nr.

In the 2012/2011 year Professional fees was supplied by Deloitte.The invoice was never received by the municipality. After legal proceedings, Deloitte supplied the municipality with a new invoice date 2012/10/12 and it was paid by the municipality end of October 2012. The expenses was never recorded by the municipality in the 2011/2012 year.

50. Prior period errors (continued)
At the end of the 2011/202 financial year, the municipality cleared the RD/Reversal Receipt vote against sundry income. However, at the begriming of the 2012/2013 financial year a posting was made to the RD/Reversal Receipt vote by the debtors department. This posting should have been done at the end of the 2011/2012 financial year and this would have had the effect that the RD/Reversal Vote would have been zero. The prior year have been amended to account for error. This will result a decrease in the Payables from exchange transactions and a decrease in other income.

6. **Finance leases obligation**

During the preparing of the amortisation schedule on the office machine leases, it was found that the interest was incorrectly calculated and recorded in the prior year with R506,401.

The prior year have been amended to account for this error. This will result in a increase in the finance lease obligation balance and a increase in finance charges.

7. Property, plant and equipment

With the complying of the fixed asset register for the 2012/2013 year, certain opening balance of the infrastructure assets was revalued by a total amount of R473,962,488. The prior year has been amended to account for this adjustment. This will resulting a increase in the property,plant and equipment and a increase in the fair value adjustment balance.

The correction of the errors / change in accounting policies resulted in adjustments as follows:

50. Prior period errors (continued)

Statement of Financial Performance for the year ended 30 June 2013	Balance as previously reported	Prior period error	Restated balance
Revenue			
Other income	11,587,381	(347,648)	11,239,733
Fair value adjustment	540,557	473,962,488	474,503,045
Total revenue	12,127,938	473,614,840	485,742,778
	12,127,938	**473,614,840**	**485,742,778**

Expenditure	Balance as previously reported	Prior period error	Restated balance
Finance costs	6,956,397	506,401	7,462,798
General expenses	794,045,690	(57,735)	793,987,955
Repairs and maintenance	42,663,873	(7,208)	42,656,665
Salaries and benefits	173,458,523	20,447,331	193,905,854
Total expenditure	1,017,124,483	20,888,789	1,038,013,272
	1,017,124,483	**20,888,789**	**1,038,013,272**

50. Prior period errors (continued)

Statement of Financial Position as at 30 June 2013

Assets	Balance as previously reported	Prior period error	Restated balance
Current Assets			
Inventory	2,342,339	3,266	2,345,605
VAT receivable	6,800,174	(158,490)	6,641,684
Cash and cash equivalents	12,465,150	(35,340)	12,429,810
Total current assets	21,607,663	(190,564)	21,417,099
	21,607,663	**(190,564)**	**21,417,099**

Non-current Assets	Balance as previously reported	Prior period error	
Property, plant and equipment	3,901,936,982	473,962,488	4,375,899,470
Total non-current assets	3,901,936,982	473,962,488	4,375,899,470
	3,901,936,982	**473,962,488**	**4,375,899,470**

Liabilities	Balance as previously reported	Prior period error	Restated balance
Current Liabilities			
Payables from exchange transactions	195,021,506	(31,526,031)	163,495,475
Total current liabilities	195,021,506	(31,526,031)	163,495,475
	195,021,506	**(31,526,031)**	**163,495,475**

Non-current Liabilities	Balance as previously reported	Prior period error	Restated balance
Unspent conditional grants and receipts	8,085,543	2,194,879	10,280,422
Total non-current liabilities	8,085,543	2,194,879	10,280,422
	8,085,543	**2,194,879**	**10,280,422**

Net Assets	Balance as previously reported	Prior period error	Restated balance
Accumulated surplus - Opening balance	4,584,904,037	8,633,746	4,593,537,783
Total net assets	4,584,904,037	8,633,746	4,593,537,783
	4,584,904,037	**8,633,746**	**4,593,537,783**

51. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (e.g. currency risk, fair value interest rate risk, cash flow interest rate risk and price risk).

This note presents information about the municipality's exposure to each of the above risks and the municipality's objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout the annual financial statements.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they fall due. The municipality's approach to managing liquidity is to ensure as far possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unauthorised expenditure The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. The municipality has not defaulted on external loans, payables and lease commitments payments being either interest or capital and no renegotiation of terms were made on any of these instruments..

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2013	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Borrowings	2,485,265	17,016,609	-	-
Trade and other payables	214,581,375	-	-	-

At 30 June 2012	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Borrowings	6,544,268	14,146,848	-	-
Trade and other payables	200,720,113	-	-	-

Figures in Rand	2013	2012 Restated

51. Risk management (continued)

Credit risk

Credit risk is managed on a group basis.

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Risk control assesses the credit quality of the customers, taking into account its financial position, past experiences and other factors. Risk limites are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

The municipality's trade exposures to credit risk is influenced mainly by the individual risk characteristics of each consumer. Consumer receivables comprise of services supplied by the municipality such as water, santitations and rates levied. The municipality's exposure and credit ratings of its customers are continuously monitored, The municipality establishes and allowance for bad debts that represents its estimate of incurred losses in respect of trade and other receivables, No trade or other receivables have been pledged as security, Certain trade and other receivables that were past due have been defaulted on by counterparties, thus legal action has been instituted against these parties in an attempt to recover this debt, where debt is irrecoverable it has been written off. No conditions or terms of the trade and other receivables have been renegotiated with counterparties.

Payables to the municipality's subsidiary Maluti-a-Phofung Water (Pty) Ltd accounts for 12% of the maximum credit risk exposure for the municipality. The account payable originated in accordance with the sale of business agreement for the purchases of the water serve by Maluti-a-Phofung Water (Pty) Ltd. No trade and other payables have been pledged as security. When loans become irrecoverable they are written off. No conditions or terms of the loans have been renegotiated with counterparties.

The municipality limits its credit risk by only banking with registered financial institutions in terms of the Banks Act, 1990 (Act No 94 of 1990) operating in South Africa. No cash and cash equivalents have been pledged as security. No terms or conditions were required to be renegotiated with the bank and no cash were defaulted on by the bank holding the municipality's cash. There were no restrictions with regards to the use of cash, barring the municipality's compliance with the Municipal Finance Management Act requirement regarding cash management.

Financial assets exposed to credit risk at year end were as follows:

Receivables from exchange transactions	21,988,683	13,617,576
Cash and cash equivalents	(34,637,734)	12,229,810
Consumer receivables	193,256,968	162,350,830
Long term consumer receivables	18,788,483	20,184,891
Other financial assets (Current & Non-current)	2,948,651	1,989,612
Investments in controlled entity	300	300

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's revenue and operating cash flows are substantially independent of changes in market interest rates.

52. Going concern

We draw attention to the fact that at 30 June 2013, the municipality had accumulated surplus of R 4,187,094,418 and that the municipality's total assets exceed its liabilities by R 4,187,094,418.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

52. Going concern (continued)

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

53. Events after the reporting date

The accounting officer is not aware of any matter or event arising since the end of the reporting period and the date of this report, other than indicated below,, which will significantly affect the financial position and results of the municipality's operations.

After year end a litigation was installed by Rural Maintenance agains the municipality. This is in term of a contract that was awarded by the municipal manager, however he didn't had the proper authority to award the contract and it was cancelled by the council.

54. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	12,477,063	3,892,225

Fruitless expenditure relates to interest on Eskom and Telkom overdue accounts and interest on late submission of VAT returns to SARS.

55. Irregular expenditure

Opening balance	-	4,314,791
Add: Irregular Expenditure - current year	3,310,194	-
Less: Amounts condoned	-	(4,314,791)
	3,310,194	-

For details on irregular expenditure, refer to deviations report for the financial year 2012/2013.

56. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

Current year subscription / fee	1,770,111	375,746
Amount paid - current year	(1,770,111)	(375,746)
	-	-

Material losses incurred

Distributions losses on electricity (in units)	170,141,758	76,638,230

Electricity losses were calculated at 34% (2012: 16%).

Audit fees

Current year fee	4,083,977	4,454,069
Amount paid - current year	(4,083,977)	(4,454,069)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated

56. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Opening balance	1,688,681	1,608,711
Current year fee	24,019,669	20,817,771
Amount paid - current year	(21,951,916)	(19,129,090)
Amount paid - previous years	(1,668,681)	(1,608,711)
	2,087,753	**1,688,681**

Pension, provident and medical aid deductions

Opening balance	3,112,531	2,978,272
Current year subscription / fee	29,358,282	35,641,070
Amount paid - current year	(26,781,102)	(32,528,539)
Amount paid - previous years	(3,112,531)	(2,978,272)
	2,577,180	**3,112,531**

VAT

VAT receivable	4,893,089	6,651,149
VAT payable	17,885,860	9,465
	22,778,949	**6,660,614**

VAT output payables and VAT input receivables are shown in note 10/17.

All VAT returns have been submitted by the due date throughout the year.

56. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following councilors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Kleynhans LM	2,549	-	2,549
Letooane SG	932	-	932
Mavuso MT	776	4,916	5,692
Mofana MM	539	2,792	3,331
Mohlekwa TR	334	-	334
Mokoena LE	386	4,825	5,211
Moleleki MS	365	-	365
Mopeli MS	4,635	28,027	32,662
Mopeli N	787	13,897	14,684
Mositi MC	2,458	5,312	7,770
Motaung PM	770	1,800	2,570
Nhlapo MA	1,629	-	1,629
Ramakarane TA	47	3,443	3,490
	16,207	**65,012**	**81,219**

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Crockett M	2,114	7,397	9,511
Khoapa NA	551	-	551
Komako M	2,235	35,314	37,549
Lefora Q	228	-	228
Letooane S	146	-	146
Mahlambi T	971	1,485	2,456
Mavuso TM	774	3,266	4,040
Moeketsi M	553	1,258	1,811
Mohlekwa T	152	-	152
Mokidi TJ	912	2,798	3,710
Mopeli N	854	12,131	12,985
Mositi M	3,362	2,651	6,013
Motaung PM	918	734	1,652
Motinyane S	268	-	268
Mpakathe M	1,798	22,598	24,396
Ntamane VM	1,228	22,149	23,377
Thebe T	371	-	371
Tsotesti J	137	42	179
	17,572	**111,823**	**129,395**

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

57. Utilisation of long-term liabilities reconciliation

	2013	2012 Restated
Long-term liabilities raised	19,501,874	20,691,116

Figures in Rand	2013	2012 Restated

57. Utilisation of long-term liabilities reconciliation (continued)

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

58. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

59. Budget differences

The budget is prepared on a accrual basis. The budget was for the period 1 July 2012 to 30 June 2013.

Material differences between budget and actual amounts

The following material operation differences occurred:
Service charges: They over budgeted by R85,454,323. They budgeted for income on the sale of streetlights, which didn't occur. And they had a additional R40,000,000 budgeted for the sale of electricity to businesses.

Interest received: They under budgeted by R5,311,128. There were more outstanding consumer receivables accounts during the year, thus the interest charged on these accounts increased.

Revaluation reserve: They budgeted for a revaluation reserve of R300,000,000 to cover the depreciation on property, plant and equipment.

Other income: They over budgeted by R131,458,561. They budgeted R140,000,000 as income received from old debt.

Direct taxes: They over budgeted by R2,112,746. The income received from traffic fines were considerably less than what budgeted for.

Property rates: They over budgeted by R57,158,683. Property rates was less than expected due to the valuation roll being adjusted resulting in property rates being less than the previous year.

Government Grants: They over budgeted by R11,602,350. They received less from the DWA Fund than budgeted for.

Remuneration of the councilors: They over budgeted by R5,235,755. The budgeted a R5.5million on councilors allowances which was not utilised.

Administration costs: They over budgeted by RR404,515,412. They over budgeted on the community capital expenditures.

Depreciation: They over budgeted by R4,399,938. They based the budget on the prior year depreciation figure.

Finance costs: They over budgeted by R7,680,980. Interest on the other financial liabilities and finance leases were less that expected,

Repairs and maintenance: They over budgeted by R31,054,751. The budgeted R22 million for repairs to buildings, this was not utilised.

Bulk purchases: They over budgeted by R37,999,881. The purchase of electricity was less than expected, this correlation with the decrease in sale of electricity.

Debt impairment: They over budgeted by R10,384,808. More people participated in the debt relief program, thus reducing the balance of debtors outstanding and this has a decrease in the debt impairment.

Contracted services: They over budgeted by R155,178,000. They budgeted more on commission paid to debt collectors, contracted services insurance and contracted services to replace streetlights.